

# The Actuary

The Newsletter of the Society of Actuaries

SUPPLEMENT

May, 1987

## THE VALUE OF THE ACTUARY — THE FUTURE OF THE SOCIETY

### *A Report and Commentary on the Actuarial Profile Survey From the Committee on Planning*

In recent years, the Society has been taking a more critical look at the attitudes of members toward our profession. Changes in business and society have had a profound impact on most professional organizations. This special supplement to *The Actuary* examines those changes most profoundly affecting us. It examines the skills our members see as needed for survival and success, and the courses of action that the Society should take in planning its course.

#### Background

Rapid communication, rising levels of educational achievement and popular trends toward "power sharing" are just a few of the major forces of change that have affected our institutions over the past generation. As a result, few organizations in a modern democratic society can truly claim to speak with one voice for all their members.

This is as true of professional organizations like ours as it is for corporations, political parties or governments. Indeed, some have observed that the professions may have been the most seriously affected by these changes.

Mass communication and the availability of technology have been cited as underlying causes of the "defrocking of the professional priesthood". Today, everyone can be their own doctor, lawyer, or, if need be, their own actuary.

In a simpler age, it seemed easier to represent the interests of "all Americans", or "all Canadians"; "all doctors", "all farmers" or "all actuaries". Today, such a task is formidable. In many situations, what were once fairly homogeneous groups have

become little more than collections of special interests.

These are just a few of the societal shifts that make governance of a professional body more difficult than it once was. They provide the backdrop from which your Board of Governors and the Committees charged with the issues of survival and governance of our profession have attempted to chart the "proper" course for the Society as we approach the final decade of the 20th century.

#### The Value of the Actuary — Yesterday, Today, Tomorrow

As life, health and pension actuaries, our unique talents are measuring, managing and communicating the contingencies of dying too soon, getting sick, and outliving the productive years of life. Our common bond is that we have the skills to provide our employers and clients with information that will help them better manage their insurance and pension operations.

As professionals whose specialty is evaluating the impact of contingent events, actuaries will have to assume the role of financial services "futurists". This will require that we be able to identify change, especially that which suggests discontinuity from past experience.

We will have to exercise more "right brain" thinking and incorporate "soft data" into the "hard data" that we, as "left brain" thinkers, are more accustomed to handling.

One theme that pervades the discussions of the Committee on Planning is how actuaries will ply their unique talents in the face of an ever more complex business world.

Our interest has been sparked by perceptions of actuaries that they no longer command the professional respect they once did. More actuaries today fear that they are being replaced by MBA's, economists, statisticians, accountants, and other business practitioners. Our concern is fed by admissions of employers and clients that they no longer look to actuaries as the exclusive purveyors of knowledge of contingent events affecting their businesses.

Concern is also expressed that the Society's promotion of the profession, its support of recruiting efforts, and its education and examination processes are producing too many "back room technicians" and not enough "up front" generalists and managers who can communicate effectively with clients and employers. The prevailing theme is that the future will place much more demand on actuaries with skills to solve unstructured problems.

Tomorrow's actuaries will need to communicate more effectively with their clients, and with non-actuarial managers in their own organizations.

After extensive analysis of mostly subjective information on this topic, and discussion of the skills that actuaries will need in order to comprise an effective profession in the year 2000 and beyond, the Committee on Planning decided to substitute some facts for impressions.

It commissioned the *Actuarial Profile Survey*, which was sent to all members last year, to determine how important they viewed various skills, and what actions they had taken to develop them.

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## THE ACTUARIAL PROFILE SURVEY — SUMMARY OF RESULTS

By Marta L. Holmberg

The survey was sent to all 9,435 active Canadian and U.S. members of the Society. A total of 3,833 responses were received. For a survey of this type, 41% is a fairly high response rate. Respondents were fairly representative of Society membership, except that FSA's were over-represented and career ASA's under-represented.

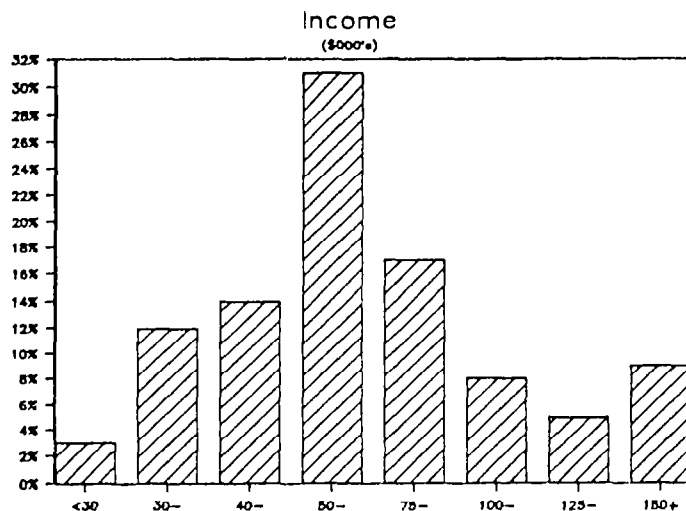
On the whole, respondents reported satisfaction with their professional success, with 86% saying that their success met or exceeded their expectations. The 14% reporting career success below expectations were also far more dissatisfied with the inconsistency between success and their abilities — 56%, versus 11% for respondents overall — and expressed far more professional dissatisfaction generally — 44%, versus 14% overall.

Respondents overwhelmingly rated their future opportunities positively — 43% "excellent", 41% "good", and only 10% "average" and 2% "poor". The remaining 4% answered "not applicable".

### Information about the Respondents

Type of work	Consulting	Insurance Company
Direct involvement - technical actuarial work	12%	23%
Primarily conceptual role	19%	23%
Generally managerial function	4%	13%

The remaining 6% were involved in academic (1%), government (2%) and "other" work.



### Attraction of the Profession

Most respondents — 53% — became interested in actuarial work during college, while a significant segment — 22% — were already interested when they began college. The profession attracted them primarily because for 62% it provided a means to make practical use of their mathematical skills. Salary expectations were reported by 13% as the primary motivation, and 10% cited expectations for advancement.

### Education

A majority of respondents received their undergraduate education in mathematics — 59% — or in actuarial science — 19%. Younger respondents were more likely to have entered college with plans to become actuaries — 29% — and to have majored in actuarial science — 30%. Thirty percent of respondents have at least one post-graduate degree.

### Perceived Skills and How to Maintain Them

Respondents rated themselves highly on most personal characteristics cited in the survey, but only average on "risk-taking ability", "assertiveness" and "managerial ability". They see themselves as "independent", "benevolent"; "results-oriented" rather than "recognition-oriented"; and "task-oriented" rather than "people-oriented".

Respondents recognize the importance of various non-technical skills such as communications, both oral and written, with non-technical audiences; problem identification and solution; strategic planning; and time management. They reported having made significant efforts to improve their skills in these essential areas, with company-sponsored courses and seminars the primary vehicles for communications, and conceptual and management skills.

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## Actuarial Profile Survey

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The survey also asked members to provide information about their work and career progress, and to provide personal data that would enable the Committee on Planning to better determine what skills and other personal characteristics fit various actuarial career paths.

The Committee indicated that the information developed from the survey would be used to guide the Society in developing strategies for career counseling programs, expanded continuing education, and different approaches to recruiting.

Pages 2 and 3 of this special supplement provide the highlights of the Survey results, which were presented to members at the General Session during

the 1986 Annual Meeting.

It is followed by commentary from four members of the Committee and from a distinguished observer not involved with formal Society governance.

The Board of Governors and the Committee on Planning hope that this special supplement will generate lively discussion among our members on the future course of the profession.

## THE ACTUARIAL PROFILE SURVEY — SUMMARY OF RESULTS

(Continued from Page 2)

Society-sponsored courses and seminars were, as expected, the most frequent methods used to improve or update technical skills. Four-fifths of the respondents believe that the Society should take an active role in providing skills development programs; a majority believes the Society should provide programs of its own, and also direct members to appropriate outside programs where it does not have the resources.

### “Technical” vs. “Non-Technical” Actuaries

Respondents in technical functions were more likely to be in the early stages of their careers, typically ASA's still taking exams; they tended to be more introspective and stability-seeking than their counterparts in less technical roles. In general, technical actuaries evaluated themselves somewhat below average on “risk-taking” and near average on “assertiveness”, “leadership”, “self-assurance” and “managerial ability”.

Non-technical actuaries presented a different profile. They consider themselves more “active”, “decisive” and “variety-seeking”, and rate themselves highly on “assertiveness”, “leadership”, and “communication skills”. They are more likely to have postgraduate degrees, and less likely to have obtained their undergraduate degree in actuarial science.

### Other Characteristics

As age increases, the percentage reporting an unexpectedly high degree of success rises from 24% below age 35 to 35% at ages 50-54. Primary function progresses with age from 53% technical/35% conceptual below age 35 to 19% technical/48% conceptual/29% managerial at ages 50-54. Salary levels show a similar trend, with most under age 35 earning from \$30,000-\$74,999. By ages 45-49, most earn from \$50,000-\$99,999, with 25% in that age group earning \$150,000 or more.

The percentages who consider themselves satisfied with their professional success were surprisingly constant across all age groups except the highest; 92% of those age 60 and over were satisfied. These percentages were also quite constant across professional environment, with the exception that a surprisingly high 95% of actuaries in academia and government said they were satisfied with their work. These two forms of employment are generally less rewarding financially than the private sector, which suggests that some actuaries consider other factors beside economic reward in rating job satisfaction.

### Earnings/Success — Another Perspective

The salary data were also analyzed against criteria suggested by James Anderson in his 1985 address to the new Fellows of the Society. By mid-career, which he defines as age 30-40, Anderson suggests that *typical* actuaries should be earning annually in thousands of dollars their age in years plus 30.

*Successful* actuaries should be earning in thousands their age times 2.5. “Exceptionally successful” actuaries in their “mature career” stage should earn in thousands of dollars in excess of 4 times their age.

By these criteria, the 760 respondents between ages 35 and 39 would be classified as follows:

Unsuccessful (below \$50,000)	18%
Average (\$50,000-\$87,499)	51%
Successful (\$87,500 & over)	31%

The 997 respondents between ages 40 and 54 would be considered:

Unsuccessful (below \$70,000)	28%
Average (\$70,000-\$99,999)	30%
Successful (\$100,000-\$149,999)	23%
Exceptionally Successful (\$150,000 & over)	19%

Anderson's criteria yield a somewhat less positive view of professional success than the survey respondents gave on a subjective basis. Many of today's 35-year-old FSA's earning in the \$60,000 to \$70,000 range consider themselves successful, and would probably be so considered by their colleagues.

Several personal characteristics also demonstrate a trend by age, with self evaluations of “tenacity”, “energy”, “personal happiness” and “communications skills” all rising with age. Respondents under 40 were evenly split in their quest between “variety” and “stability”; by their 40's, most sought “variety”, but over age 50, had shifted back to “stability”.

These are the principal results tabulated from the Survey that the Committee on Planning is using to develop its recommendations to the Board for changes in specific programs and overall strategy of the Society.

Members interested in more detail may call or write Dr. Marta L. Holmberg, Examination Staff Consultant, at the Society Office.

## 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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## Actuarial Success — And Less

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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?*<sup>(1)</sup> 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 new 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. □

<sup>(1)</sup> Anderson, James C. H. *Which Future for the Actuarial Profession?* Address to the new Fellows of the Society of Actuaries, St. Louis, May 1985.

## FES/FEM AND THE VALUE OF THE ACTUARY

By James J. Murphy

The Society of Actuaries recently distributed a White Paper on Future Education Methods (FEM). This paper was prepared by the E & E Committee for review and comment by members and students. A White Paper on a Flexible Education System (FES) was distributed last year. A major force behind the development by the E & E Committee of the FES and FEM concepts has been the "Value of the Actuary" issue, which the Society's Committee on Planning and Board of Govern-

nors have been discussing over the last several years. This issue is addressed in some depth by members of the Committee in this Special Supplement on the *Actuarial Profile Survey*.

The FES/FEM concepts are viewed as part of the solution for addressing concerns about the value of the actuary today and in the future. In the complex and fast moving environment that we see now, and expect to see more of in the future, changes such as FES/FEM in basic actuarial education, along with comparable steps in research, public relations, recruiting and continuing education, are necessary to maintain the value of the FSA. In this way, the Soci-

ety leadership hopes to maintain and even increase both the real and perceived membership satisfaction that is shown in the Profile Survey results.

It is hoped that readers of this supplement will gain a greater awareness and understanding of some of the background that has led to FES/FEM. The Committee on Planning hopes that this will be helpful in evaluating the concepts and proposals of the recent FEM White Paper.

We urge all members and students to make their views known by responding to the FEM questionnaire included with the White Paper. □

## A STRATEGIC PLAN FOR THE SOCIETY OF ACTUARIES

By James C.H. Anderson

My hypothetical client, the Society of Actuaries, has engaged me to assist in the preparation of a Strategic Plan intended to establish the future direction of the profession and the role of the Society beyond the year 2000. This is the Executive Summary of my report.

### Principal Findings

- The Society of Actuaries, since its founding in 1949, has succeeded in establishing and maintaining high professional standards among its members by administering an educational and examination program which requires aspiring members to demonstrate superior mathematical skills and specialized expertise in areas relating to the traditional scope of the profession.

- The members of the Society, because the qualification process is intellectually demanding, have benefited substantially, economically and otherwise, from the scarcity value created by the high standards.

- The members of the Society, in contrast to many other professional groups, have also benefited substantially because they earned reasonable incomes and incurred no significant costs during their period of early training. This is because the insurance industry and other employers have operated a "farm system" for future members of the profession.

- On several past occasions, competing professional organizations have

emerged, sponsored by individuals and groups disadvantaged by the exclusionary membership standards of the Society or not adequately served by the narrow focus of its areas of interest. These competing organizations include:

- The Casualty Actuarial Society (CAS) organized 1914.
- The Conference of Actuaries in Public Practice (CAPP) 1950.
- The American Society of Pension Actuaries (ASPA) 1966.
- The last two organizations were established concurrent with efforts to consolidate the profession on an exclusionary basis:

In 1949, the Actuarial Society of America and the American Institute of Actuaries merged to become the Society of Actuaries.

In 1965, the American Academy of Actuaries was organized under the sponsorship of the established professional organizations.

- In 1975 the U.S. Government rejected the proposal of the Academy to use the existing membership criteria of the Academy for the purpose of the Employees Retirement Income Security Act, finding its standards unrealistically high. Since then, the Joint Board for the Enrollment of Actuaries has developed qualification standards for this purpose. Enrolled actuaries as such have no standing within the Society, but are eligible to become members of the American Academy of Actuaries.

- The Canadian Institute of Actuaries has been more successful than the Academy in maintaining control of uniform qualification standards for ac-

tuaries within its jurisdiction. It has recently begun to push for broader qualification procedures, including casualty practice and possible recognition of university training.

- During the period of steady growth that occurred in the life insurance industry from 1950 to 1970, the supply of actuaries meeting the qualifications of the Society was adequate to the needs of that industry. In the pension and employee benefits field, which experienced extremely rapid growth during and since that period, the supply of actuaries meeting the qualifications of the Society was inadequate to meet the needs of the market; thus, alternative and less demanding qualification standards emerged and became accepted by the marketplace.

The casualty actuarial practice, long neglected by the Society, experienced explosive growth from 1975 onwards; the substantial and growing needs of this branch of the profession have been met by the Casualty Actuarial Society, an organization which seems to have adopted standards of qualification at least as demanding as those of the Society of Actuaries.

- Since 1970, the growth of the life insurance industry has slowed dramatically in the area of individual products, heretofore the dominant area of practice for members of the Society. Unbundled products and advanced computer technology have diminished the demand for actuaries, particularly those who are technically oriented.

Now a major consolidation of the life insurance industry seems certain and

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## A Strategic Plan

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imminent; among the economies of scale expected to result is a reduction in labor costs for actuaries. Some believe the demand for actuaries within the life insurance industry has already declined. A further decline, perhaps of major proportions, is clearly indicated. The decline is likely to be most severe as it relates to those whose skills are primarily technical, as contrasted to managerial.

- In the pension and employee benefits field, many recent developments have also diminished opportunities for actuaries meeting the qualifications of the Society. Current emphasis has shifted away from defined benefit plans and towards defined contribution plans; away from risk sharing of health care costs and towards self-insurance; away from retirement and health-care employee benefit programs of the traditional type and towards flexible benefits and total employee compensation programs.

These changes diminish the need for traditional actuarial skills while increasing the demand for administrative and human resource skills. Some consulting firms active in the field distinguish their staff members as "actuaries" or "consultants", viewing the former as providing technical support and the latter as the true professionals.

- In summary, the Society has, for many years, retained a narrow focus within the wider actuarial profession. Its qualification standards have been elitist and exclusionary, which has operated to the benefit of its members.

At an early stage, arguably at a time when demanding standards of qualification were unnecessary, it abandoned the needs of the casualty actuarial branch of the profession. At a later stage, it did not meet the growing and progressively non-technical needs of the employee benefits branch of the profession.

Developments within the life insurance industry and elsewhere now suggest that the future demand for actuaries in the areas of practice primarily served by the Society is likely to diminish and be exceeded by the supply of actuaries meeting the qualifications of the Society.

This will diminish the economic and other benefits of membership. Moreover, the future role of the Society within the wider profession is likely to diminish further if its current narrow focus and exclusionary membership policies continue.

### Recommendations

- The Society of Actuaries should redefine the branches of the actuarial profession it intends primarily to serve in a way that includes those branches and new extensions of the profession likely to experience reasonable future growth. These include:

- Casualty actuarial practice.
- Employee benefits consulting in the wider sense.
- Investment management and supervision.
- Management consulting to the financial services industry.
- An expanded practice in the area of long-term forecasting.

### QUO VADIS

By Gary Corbett

For some time the Committee on Planning has been discussing and investigating the role and the value of the actuary in today's world. In the next few months, we'll be turning our attention to the actuary of the future.

You've read what Committee members and others see as our problems and opportunities. What does your crystal ball foretell? Are the Society and the other actuarial organizations appropriately preparing us for the 21st century? Even if we continue our attention to current FSAs and ASAs, most of their careers will be spent in the 21st century.

As the Committee on Planning and other Society bodies look to the future, we'd appreciate learning of your concerns and ideas. Please send them to me at my *Yearbook* address or express them in person to President Ingraham or me at Society meetings or in our visits to local actuarial clubs.

- The Society of Actuaries should revise its qualification standards in a way that permits it to attract members interested in these wider fields.

The core requirement should remain mathematically oriented and demanding, but with less emphasis on mathematical theory and more emphasis on applied mathematics (such as general probability theory, statistics and computer science). It is unrealistic to continue to require a demonstrated expert knowledge of life contingencies or pension funding techniques from those intending to practice in other branches of the wider profession.

The flexible education proposal now under consideration represents a reasonable first step. To address the probable over-supply of members trained in existing areas of practice primarily served by the Society, a major retraining program is needed to equip some of these members, particularly younger ones, to engage successfully in new and growing segments of actuarial practice.

- The Society of Actuaries, notwithstanding its premier position in the actuarial profession in North America, is also the most threatened of the established actuarial organizations because the areas of practice it now serves are shrinking.

It should seek an amalgamation with the Casualty Actuarial Society, the Conference of Actuaries in Public Practice and the American Society of Pension Actuaries to expedite its move to widen its existing focus into growing areas of practice. Such an amalgamation is practical only if its terms are widely inclusive for members of the constituent organizations; an amalgamation on exclusionary membership terms is likely to fail and, even if it succeeds, likely to spawn a new competing body. In particular, there must be a role for the Enrolled Actuary.

- These recommendations, if adopted, are not likely to be embraced enthusiastically by the membership of the Society. They are likely to be viewed as threatening to the hard-won advantages long enjoyed by the members. Accordingly, the perceived problems addressed by the Strategic Plan must be widely understood before the Plan itself can be implemented. □