



The Newsletter of the Society of Actuaries

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THE Actuary

Employee benefit consulting in Canada

by J. Bruce MacDonald

While Canada and the United States share many similarities, there are fundamental differences which many Americans discover to their pleasure, or dismay. In the employee benefits field – where many insurance companies sell similar products on both sides of the border – those who ignore the differences do so at their own peril. This article outlines the major differences in consulting practices between the two countries.

Pension consultants in Canada face three major problems simultaneously. First is pension reform, which requires extensive changes in all plans. Next is tax reform, which by itself does not require much change in existing plans, but may well result in design changes to maximize tax effectiveness. Finally, there are the changes in accounting rules, not dissimilar to those of FASB, promulgated by the Canadian Institute of Chartered Accountants. Canadian actuaries and accountants, however, seem to be on better terms than their American counterparts.

In pensions, Canadians deal with two sets of regulators who do not interface. Revenue Canada is concerned with preventing excessive amounts being contributed to pension funds and ensuring that the funds are used as intended. Provincial authorities (and a federal department for certain industries that are under exclusive federal jurisdiction) are concerned with protecting the rights of plan members and ensuring plans are adequately funded. In other words,

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Standard setting in the accounting profession

by Dale Gerboth

Not all stories end well. Fifty years of accounting standard setting may be one that does not. But whether it ends well or not, the story may say something to the actuarial profession in its effort to strengthen its own standard-setting arrangement.

Supreme court of accounting

Accounting's standard-setting arrangement has been in place since 1973. That was when the full-time, independent Financial Accounting Standards Board (FASB) replaced two part-time committees of the American Institute of CPAs, which had set standards since 1938.

The change to a full-time, independent standard-setting authority responded to several criticisms of the prior arrangement. Critics had complained that business transactions were too complex and were evolving too rapidly to be dealt with by a part-time committee. Critics also had charged that committee members owed first allegiance to their employers and thus lacked the inde-

pendence necessary for objective standard-setting. The FASB, its architects hoped, would be better able to keep pace with a rapidly changing business environment, would decide issues more objectively, and would enjoy greater credibility.

To a great extent, these hopes have been realized. While FASB has its critics, it has also received remarkable across-the-board support. In a 1985 Louis Harris survey of business and professional leaders, the Board's overall performance received an outstanding 87% positive rating. Commenting on the survey findings, Harris remarked that "the FASB has now achieved a status in accounting with at least some similarity to that of the U.S. Supreme Court in the system of justice."

Why then the gloomy suggestion that the story of accounting standard setting may end badly? With an 87% positive rating and favorable comparisons with the Supreme Court, the FASB seems certain to survive and prosper.

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Standard setting cont'd

Depersonalized decision making

But FASB's survival and prosperity are not the whole issue. Equally important are the survival and prosperity of essential professional values. The damage FASB has done to those values is of concern.

The essence of professionalism, in accounting as elsewhere, focuses on assuming personal responsibility for results. While professional decisions may be guided by standards a profession has set as a whole, the responsibility for the results of those decisions lies not with the standards, but with the individual. To teach otherwise destroys professional values.

Equally destructive is the notion that professional responsibility extends only to complying with enforceable minimums. No profession worthy of its name honors mere compliance with the bare minimum of its standards. Neither does it measure excellence by adhering to standards imposed from the outside. True professionalism demands a commitment to excellence that comes from within and a commitment to standards too high to be imposed from the outside. That commitment too depends on carefully nurtured values.

Sound professional self-regulation policies recognize the primacy of values and cultivate the character traits that nurture them. But that is not what FASB has done.

FASB's sole concern has been with accounting techniques which the Board has rationalized through a finespun web of rules — minute, complicated, and binding on all. In its 15-year existence, FASB has issued nearly 200 authoritative statements and interpretations, more than twice that of its predecessors in less than half the time. Added to the Board's own output are more than 40 quasi-authoritative technical bulletins of the FASB staff and well over 100 binding conclusions of the FASB-sponsored Emerging Issues Task Force.

Many of these rules stoop to appalling detail. The catalog of lease accounting rules alone was eventually codified and reissued as a separate book, larger than the sum of all accounting pronouncements 25 years earlier.

This detailed intervention into decision making has depersonalized much of what was once the accountant's most professional undertaking. Decisions about the accounting for

particular transactions and events, once the province of professional judgment, have increasingly been preempted by rules bearing nearly the force of law. Decision making has largely been reduced to mastering the index as a rulebook, an arid exercise of Find and Follow.

This has resulted in transferring the responsibility from the accountant to the rule, begetting a form of game playing. In place of assuming personal responsibility for results is the cynical attitude that anything not forbidden by the rules is all right. Some accountants even join enthusiastically in efforts to search for and exploit the loopholes in their own standards.

Rebellion against standards

In part, this is a natural reaction to the sheer intrusiveness of today's accounting standards. When surrounded by a wall of over 300 FASB-related pronouncements, the still-authoritative residue of prior pronouncements, and the manifold directives of the Securities and Exchange Commission, it is a relief sometimes to find something — anything — not constrained by a rule. When something is found, accountants often rebel at the suggestion that their personal responsibility for results may dictate additional, self-imposed constraints.

But the accountants' rebellion against their standards has a still more ominous cause. The FASB's preoccupation with technique has blinded it to the need to maintain the emotional ties that bind people together. The technicians on the Board have failed to realize that important tasks are accomplished by people working together in organizations rather than by techniques. Maintaining allegiance to an organization sometimes demands compromising to accommodate divergent views and values. Too often, the Board has scorned such compromise as mere "politics" unworthy of an honorable profession.

The result has been standards such as FASB Statement No. 87 on accounting for pensions. With that standard alone, the FASB alienated a large part of the business community, virtually all of the actuarial profession and a disturbingly large number of public accountants. Many accountants have simply said in effect, "Statement 87 is the FASB's standard, not mine. I will comply with it because I have to. But no more than I have to."

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Standard setting cont'd

Such grudging and perfunctory compliance virtually assures game playing. And not with Statement 87 alone. Playing games with one standard makes it easier to play games with another. Eventually, it leads to a breakdown of those professional values, without which no standard is effective.

Enduring values

Still, the story of standard setting in accounting need not end badly. The FASB's neglect notwithstanding, professional values endure. Accountants are still taught to do what is right, and the majority retain the integrity to do so. But integrity, like muscle, atrophies from lack of use. Accounting standards built on the notion that accountants are hen-hearted timeservers for whom the FASB must provide outpatient care demand little integrity and ensure its wastage.

Dale Gerboth, CPA, is a Partner in the national office of Arthur Young. He is not a member of the Society.

New officers, board members elected

Allan D. Affleck was chosen President-Elect of the Society of Actuaries in the recent election for 1988-89 Officers and Members of the Board of Governors.

Ballots were sent to 6,047 Fellows and returned by 2,684, for a return rate of 44.4%.

Other election winners are:

Vice Presidents:

Barnet N. Berin
Burton D. Jay
Donald R. Sondergeld

Secretary:

Anthony T. Spano

Treasurer:

Michael J. Cowell

Board of Governors:

Nicholas Bauer
Christopher D. Chapman
Arnold A. Dicke

Tom Gutterman

Michael E. Mateja

Daniel J. McCarthy

These new officers and Board members will assume office at the end of the closing General Session at the annual meeting, October 23-26 in Boston.

Canadian consulting cont'd

the former are concerned with *maxima* and the latter with *minima*.

Revenue Canada does not routinely require an actuarial valuation to determine what pension plan contributions are deductible. Such valuations are required only when permission is requested to make contributions beyond the current service limits contained in the Income Tax Act. Thus, the American scramble to finish valuations for tax purposes does not occur. Unlike in the United States, employee contributions are deductible, so most plans require employee contributions.

The provincial authorities require triennial valuations, although many larger plans perform more frequent valuations.

Plans are allowed to build up surplus. Although Revenue Canada sets a maximum surplus of two years' employer contributions, there is no reporting procedure. Because surplus does not as a rule directly affect the allowable contributions, most plans use the accrued benefit method for funding. Only a minority use any of the level premium methods so beloved by American actuaries.

The accrued benefit method is considered the minimum standard. While provincial authorities may challenge the actuary's assumptions, and while Revenue Canada has certain rules with respect to funding past service, the actuary has wide freedom in choosing methods and assumptions. Unfunded liabilities may be paid in a lump sum under the Income Tax Act, unlike under the U.S. Internal Revenue Code, and in general, they may not be amortized over more than 15 years. As a result, Canadian pension plans may be more conservatively funded than U.S. plans.

While discrimination by race, color, creed, age, and sex is prohibited, Canadian pension plans, unlike American ones, can provide more generous benefits for the highly paid, including executives and officers. It is possible in Canada to establish and fund nonregistered pension plans providing benefits in excess of the maximum benefit of \$1,715 per year of service. This has remained unchanged since the mid-1970s. Because a refundable tax must be paid on both contributions to and investment earnings of such plans, they cost more than the usual registered pension plan. "Execu-

tive" pension plans are an important part of Canadian pension consulting.

Canadian insurance companies offer virtually the same investment services as trust companies or investment counselors. Many of the special products designed for use in the United States are either not offered or are little used in Canada. Banks do not offer investment management services in Canada.

Pension reform in Canada will not be described in detail here, except to note an unfortunate tendency toward overcomplication and bureaucracy inspired in part by ERISA.

Two of the most controversial issues in pension reform are the ownership of pension surpluses (and their withdrawals from ongoing plans) and mandatory indexing of pensions-in-pay. The various Pension Benefits Acts have addressed the former, making it considerably more difficult to withdraw surplus. Premium holidays by the employer are still allowed, however. The Ontario Friedland Report on Indexing was released in February and recommended mandatory indexing for defined benefit plans. These recommendations were summarized elsewhere and will not be repeated.

The complication of pension reform and certain proposed changes in the Income Tax Act that favor defined contribution plans have led to discussions about the demise of the defined benefit plan, just as in the United States. So far the "trend" has largely been limited to talk rather than action, and the recent precipitate decline in the stock market may have made money purchase plans less attractive.

Savings plans face certain problems in Canada, since they are not specifically recognized in the Income Tax Act. For the employer's contributions to be deductible without creating an immediate taxable benefit for the employee, a "Deferred Profit Sharing Plan (DPSP)" must be established. If there is a generous pension plan in existence, as there frequently is, the amount the employer can contribute to the DPSP is severely limited. Because savings plans frequently create an immediate tax liability for the employee, it is necessary for the employer's contributions to vest immediately.

For nonpension benefits, the major U.S.-Canadian difference is the

Canadian consulting cont'd

existence of provincial health plans providing coverage for virtually all physician's services and hospital accommodations to the ward level.

Health insurance coverage is thus limited to lines like semiprivate or private hospital accommodation, nursing care, ambulance, drugs, dental, and vision care. Cost containment and audits are as important in Canada as in the United States, but the thrust is obviously in areas that are peripheral in the United States. In particular, such attractive ideas as HMOs and PPOs are not as relevant in the Canadian medical scene, although dentists have started something equivalent to a PPO.

Consulting practice does not differ much with respect to group life, weekly indemnity, and long-term disability.

Flexible compensation programs, the latest development in Canada, are receiving considerable acceptance. The U.S. flexible spending account, however, cannot be used without modification.

ASOs are being used more frequently in Canada and for the same reasons as in the United States — for control of costs.

There is not the same concern about unfunded liabilities with respect to postretirement group life and health benefits as in the United States, largely because provincial hospital and medical plans limit private sector exposure in health insurance. Postretirement life insurance is a potential problem that has not yet received much recognition. However, the possibility of unfunded liabilities on long-term disability plans funded through ASO has received some attention.

J. Bruce MacDonald is Principal, William M. Mercer Limited.

TSA papers accepted

The following papers have been accepted for publication in *TSA* Volume 41:

"C-1 Risk Task Force Report," by Irwin T. Vanderhoof, Faye Albert, Aaron Tenenbein and Ralph F. Verni.

"AIDS: Some Aspects of Modelling the Insurance Risk," by Harry H. Panjer.

Major issues faced by the Society in 1988

by Gary Corbett

For the January 1988 issue of *The Actuary* I wrote an article, "Major Issues Facing the Society," which summarized the major issues facing the Society during 1988: education and examinations, research, actuarial principles, strengthening the profession, the future of the actuary/the actuary of the future, and employee benefits. As we near the end of the Society year, it is timely to review progress on these issues.

Education and examinations

The implementation of both FES and FEM remains essentially on schedule, with FES for the Fellowship exams beginning this fall.

A proposal to significantly reduce the number of subjects in which the Society educates and examines was evaluated by the Education Policy Committee. That proposal was found to conflict with some aspects of "A Strategic Premise for Actuarial Education," the current Board-approved policy that guides our education and examination system. The Committee recommended to the Board that the Society continue with FES and FEM as an evolutionary approach toward the same end as proposed by the more revolutionary "June 1986 Proposal." The Task Force on The Future of the Actuary/The Actuary of the Future has been requested to include recommendations concerning strategic education objectives in its final report. If the actuary of the future indeed requires different education than in the past, it would be appropriate to revise the Society's education guidelines or premises. Following these revisions, proposals for change would be evaluated against the updated guidelines.

Research

The Task Force to Review and Revitalize Society of Actuaries Research presented its final report to the Board of Governors in May. The key recommendations of this report, endorsed by the Board and now in the implementation process, were:

1) the hiring of an additional staff member to work in the experience

studies area, with the position funded from the revenue received by the Society for these studies.

2) the hiring of an additional research professional to work on various research activities.

3) provision in the 1988/89 preliminary budget for \$150,000 in seed money for the research function. We have also established a Research Development Fund to receive donations from members, other supporters and users of actuarial research.

In addition to providing staff and funds, it was necessary to identify, prioritize and manage research projects. The Research Policy Committee has developed an issues management process to address these needs.

On a personal note, for years I and others have struggled to enhance the Society's research role. As vice president for research in 1984-1986, I was not successful in significantly increasing the level of Society research activities. Now, at least for the first time since my involvement with the Society governance in the mid-1970s, I believe the Society will be an effective education and research organization. This is a result of the dedication of people like Task Force Chairperson Anna Maria Rappaport, Vice President for Research Irwin Vanderhoof, Director of Research Mark Doherty, and many others too numerous to mention.

Actuarial principles

Progress in articulating actuarial principles has been slow, but we have had activity this past year. After months and even years of much effort and many drafts, we have a working definition of principles, as distinguished from axioms at one end of the spectrum and standards at the other. These principles are to be scientific and method-oriented rather than behavioral. The Board has authorized the appointment of a Joint Committee with The Casualty Actuarial Society, which has already developed principles for rate-making and reserving.

The Board did agree to make available to the membership the Final

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Report of the Committee on Life Insurance Company Valuation Principles. However, these principles have not been articulated by the Board and eventually must be reworked in line with the procedures developed by the Task Force on Actuarial Principles.

Strengthening the profession

The report of the Task Force on Strengthening the Actuarial Profession, composed of members of the six North American actuarial bodies (AAA, ASPA, CAPP, CAS, CIA, and SOA), was presented to the Council of Presidents in June. The Council agreed that the report should be presented at the fall meetings of the executive committees and boards of the six sponsoring bodies. The boards will be requested to authorize distribution of the report to their members in early 1989. The earliest time at which any Board or membership decisions or actions are expected would be late 1989. Extended discussion with the members of all the organizations is important, not only from the perspective of implementing the recommendations, but also to educate the members on the need for strengthening the profession — in particular, our public interface activities.

The specific recommendations of the Task Force are:

- 1) The American Academy of Actuaries should be reorganized to improve the effectiveness of its public interface activities. The reorganization would involve the establishment within the Academy of four practice divisions (Life, Health, Pensions, and Casualty) and the direct representation on the Academy Board of the practice divisions and of the member service organizations.
- 2) The profession should work toward the objective of having all practicing actuaries in the U.S. or Canada belong to the AAA or CIA, respectively. The AAA and CIA would be the only actuarial organizations in the U.S. and Canada to establish standards of practice and conduct, and to have discipline procedures.
- 3) The actuaries in ASPA and CAPP should join together to form a new organization, possibly called The Congress of Consulting Actuaries (CCA).

Additionally, the Task Force recommends that a number of issues be studied further. These include coor-

inating and combining education (basic and continuing) efforts and administrative and staff functions.

Within the next few months you will all be hearing much more concerning the Task Force report. I'll use this opportunity to congratulate Task Force members on producing a coherent and valuable report on a very difficult subject. Strengthening the profession is a long and difficult process. We must settle for incremental steps rather than the sweeping reorganization that would be most logical but is impossible because of the current organization of the profession in the U.S.

Future of the Actuary/Actuary of the Future

There was no expectation that the Society leadership would solve all the problems relating to the actuary of the future and the future of the actuarial profession this year. The Task Force on the Actuary of the Future will be reporting its recommendations; we have held open forums on the subject at all Society meetings; and the Future of the Actuary has been the theme of most of my talks to actuarial clubs. At the time of writing this article, I have not seen the Task Force Report and since this subject will be the primary theme of my presidential address in Boston, I'll add only that it has been encouraging to learn that actuaries in other countries, e.g., the U.K. and Australia, have similar concerns and are proposing some interesting approaches.

Employee benefits

On the employee benefits front, we have enjoyed a number of solid successes. The pension study notes have all been upgraded. Our spring meeting in Anaheim, devoted largely to employee benefits, was very well attended and supported by employee benefits actuaries. The four U.S. actuarial organizations concerned with employee benefits are coordinating their activities to a far greater extent than in the past. For example, we submitted a joint response to the Joint Board's proposed Continuing Education Regulations; the Society has joined the Academy and the Conference as a cosponsor of the Enrolled Actuaries Meeting; and we are working to coordinate our continuing education offerings.

The Board will likely pass a bylaw permitting the President to

add one or two governors to the Executive Committee to ensure appropriate representation of employment specialties and countries. Concern about lack of employee benefit experience on the Executive Committee was the proximate cause of the Planning Committee's recommendation that provision be made in the By-Laws for these additional Executive Committee appointments.

Summary

All in all, I believe we have been reasonably successful in tackling the issues facing the Society and the profession in 1987-88. The successes are a direct result of the efforts of volunteers — officers, governors, committee section and task force members and others — and of our capable staff in the Society's office.

As I pointed out in the January article, to move the Society ahead, successive presidents must share consistent goals and objectives. Undoubtedly, incoming President Ian Rolland and President-Elect Allan Affleck will change emphases and start some new projects, but I am confident that the Society will remain on a track that will ensure our viability and effectiveness for many years to come.

Gary Corbett is President of the SOA for 1987-88. He is Senior Vice President and Chief Actuary with Equitable Insurance Companies.

What do you like, dislike about Yearbook?

The newly formed Yearbook Advisory Committee asks you to complete the enclosed survey soliciting your opinions on the Yearbook.

The committee, chaired by Ken McFarquhar, will consider your likes and dislikes in its review of the Yearbook contents and in any recommendations for changes. After this initial review, the committee will continue to monitor the Yearbook to make sure it is meeting membership needs.

An immediate task of the committee will be to produce a special Yearbook commemorating the 1989 centennial celebration. Watch for this special edition early in 1989.

Across the Pond: U.K. benefit program design

by Stuart M. Southall

Trends in benefit program design and regulation are rather like bad weather, golf trophies or the budget deficit: eventually they come across the Atlantic. Perhaps from time to time the U.K. ships something back (besides Jaguar cars). Either way, I hope that readers of *The Actuary* will be interested in this summary of some recent changes in the U.K. pensions sphere.

As of last year, legislation limits the extent to which companies can build up assets in tax-approved pension schemes. From a U.S. perspective, it might seem strange that any company would want to hold excess assets in its pension plan. However, historically the U.K. has adopted an appreciably more conservative attitude toward funding. In particular, employers have been permitted to make advanced provision for increases on pensions in payment even though these might be entirely discretionary. The desirability of maintaining all or most of the value of pension payments to counter the effects of inflation is generally accepted in the U.K. Cautious funding, together with a sustained period of high real investment returns and declining scheme membership because of industrial "rationalization," has led to excessive funding of many schemes. Pension scheme "surpluses" have attracted much publicity (some of it misinformed). It is not particularly surprising that the government eventually acted as a result of its concern over the apparently unwarranted deferral of tax revenue.

Under the legislation each actuarial valuation submitted to the Inland Revenue must now be accompanied by a statement covering the scheme's funding level (i.e., the ratio of the assets in hand to the value of benefits accrued to the valuation date, valued on the projected Unit Credit Basis). The funding level must be determined on a set of actuarial assumptions which are largely mandated. U.S. readers may be interested to note that the mandated basis permits a discounted cash flow valuation of assets and (subject to certain

provisos) allows for future discretionary pension increases.

Where the level of funding on the statutory basis exceeds 105%, remedial action must be taken to reduce it to that level or less within five years of the valuation date. Acceptable measures are either one or a combination of: benefit improvements; cessation or reduction of the employer's or the employee's contributions; or a repayment of assets to the employer. This last measure is possible only if the scheme rules permit a repayment and the sum returned is subject to a freestanding tax of 40%. Most overfunded schemes seem to opt for an employer's contribution holiday (i.e., total suspension) and/or benefit improvements for members.

Of greater importance still is the plethora of government green and white papers, consultative documents and primary legislation which culminated this year in a wider freedom of choice for individuals. Green papers are a basis for consultation; white papers set out government positions as prelude to legislation. It is no longer legal to compel employees to join a company-sponsored pension scheme. Instead, they have the choice of joining, or alternatively of relying entirely on the State Scheme or of effecting a personal pension.

Personal pensions are individual money purchase (or defined contribution) arrangements. As such they are fundamentally different from company pensions (over 90% of employees in occupational schemes have been in final-salary or defined benefit arrangements) or from the State Scheme (essentially a basic pension plus an optional career average revalued earnings scheme).

Personal pensions fit nicely into the present government's vision of a homeownership, share-owning population independent of the State. Nevertheless, substantial opposition to the concept exists from sources as varied as the Trade Unions Congress and the National Association of Pension Funds. The October 1987 events in the world stock markets have, of course, reminded us of the possible vulnerability of defined contribution plans.

One beneficial side effect of the proposals has been to encourage employers in communicating their pension schemes. For years final-salary schemes were poorly understood and much maligned—particularly by job changers who historically, at least, have had a poor deal. At last employers are seeing that it is time to get some mileage out of these costly arrangements. An alternative adopted by some companies (particularly with U.S. parents) is to use the freedom of choice to encourage opting out of the costly company plan into cheaper personal pensions.

The third option available to employees is total reliance on the State. State benefits in the U.K. are paid on a pay-as-you-go basis; they are sensitive to the ratio of beneficiaries to contributors (i.e., those in employment). The government's latest projections imply that by the 2030s current arrangements will be intolerably expensive. Accordingly, various changes have been introduced this year, although the effects are not substantial until the next century. Even then, they are phased in gradually. It would be naive to assume there will be no further changes before we get there! But the message is clear: in racing parlance, the State Scheme is a three-legged horse.

Furthermore, the government is offering a financial inducement to opt out of the second-tier earnings-related section of the State Scheme (known as SERPS). The inducement, variously referred to as "an incentive" and a "bribe," depending on your point of view, is available for five years. In reality the government is trying to privatize SERPS, and the inducement is the buyer's premium.

Stuart M. Southall, FIA, not a member of the Society, is a consultant practicing in the U.K. Formerly with Mercer Fraser, he is now with Punter Southall Kerr & Co.

In memoriam

William C. McCarter FSA 1942
Michael C. Schlusel ASA 1982

Analyzing employee benefit costs in mergers and acquisitions

by Everett Wong

(Ed. note: This is the first article in a two-part series on the actuary's role in mergers and acquisitions. Part I tells how to begin a review; Part II, which will be published in the November Actuary, will focus on what to watch out for.)

As mergers and acquisitions have become almost routine transactions in the United States, the accounting, legal and investment banking professions have developed an abundance of M&A specialists. Such is not the case with the actuarial profession, despite the important role employee benefit costs play in determining the value of a business. Moreover, not much actuarial literature has been published on this subject.

This article, based on the author's own experience, is a guide for readers not familiar with M&A projects. It is written from the viewpoint of an actuary working for a buyer who is interested in purchasing a company from a seller.

The actuary's objective

The purpose of the actuary's review is to identify and quantify:

- (a) assets and liabilities related to employee benefits; whether they are on the balance sheet (e.g., reserve for unfunded pension liability written off because of a prior shutdown) or off the balance sheet (e.g., liability for retiree medical insurance); and
- (b) costs of employee benefits in future years.

If details are available on the components of employee benefit costs that went into the company's financial statements and earnings projections, this information can serve as a benchmark for the actuary's evaluation.

Liabilities versus future costs

It is not enough to look only at the liabilities or only at the future costs, since they are merely different parts of the total benefit costs and both are used in pricing an acquisition. The line between liabilities and future costs is

drawn not necessarily on the basis of actuarial theory, but also after taking into account tax, accounting and other considerations.

For example, although not required by current FASB rules, a buyer may elect to recognize at acquisition a large liability for post-retirement medical insurance and set up an offsetting amount as goodwill, with that amount typically amortized over 40 years. If instead the buyer waits for the proposed FASB rule (on accruing the cost of postretirement insurance benefits during an employee's active service) to become mandatory, the same amount may have to be amortized over 15 years. Therefore, future reported earnings will be affected by this decision to book a liability up front.

Both the liabilities at acquisition and the costs in future years (distinguished between the accrual costs and the cash flow) should be examined, and the relationship between them should be delineated.

Stock versus asset purchase

Much emphasis is often placed on the distinction between a stock purchase and an asset purchase. Conceptually, under a stock purchase, a buyer is buying the stocks of a company and assuming the role of the employer. This generally means the buyer inherits the company's pension plans, union agreements, insurance policies and so on — which would not be true if the buyer is purchasing only the assets of the company from the seller. This distinction is important since it defines where the buyer and the seller stand before the negotiation begins.

It is equally important to keep in mind that, in the area of employee benefits, much of this distinction between a stock purchase and an asset purchase can be negotiated away.

For instance, suppose a buyer is purchasing the stocks of a company with an underfunded pension plan (whatever "underfunded" means). The buyer is not necessarily stuck with that unfunded liability, since the plan sponsorship can be transferred back to the seller before the acquisition (e.g., by merging the company's plan

into the seller's plan) or because the buyer can negotiate a price reduction to make up for the shortfall. Conversely, if the acquisition were to be an asset purchase instead, the buyer might consider taking over the underfunded plan and negotiating a corresponding purchase price reduction, if advantageous.

Therefore, the actuary's cost analysis should not be limited to the buyer's initial negotiation position, but should also include the effects of various transactions that can be negotiated to improve that position.

Where to begin?

If the company or the seller is a public company, start with its most recent annual report to learn about the nature of the company's business, the geographic locations and the organizational structure. Footnotes to financial statements can also be enlightening.

A seller soliciting bids often sets up a "data room" and invites interested buyers to view relevant information. Employee benefits documents in a data room usually include plan documents, employee booklets, insurance contracts, actuarial reports, trustee reports, Forms 5500, insurance premium worksheets, insurance renewal letters and employment agreements with senior executives. In addition are the annual report, proxy and 10-K for the SEC. An employee handbook, if available, can help provide an overall picture of the company's employee relations. These are the items an actuary generally needs to evaluate the company's benefit costs.

Given the volume of material to review, it is important to develop a plan either before or shortly after arriving at the data room. Important subjects should be identified, with time set aside for asking follow-up questions or getting additional information. On the latter, remember that if one asks for everything, one is liable to get nothing, at least not in time to perform the necessary analysis.

If the seller has engaged an investment banker to prepare a disclosure memorandum (similar to a prospectus), sections of that document relating to management and

Mergers and acquisitions cont'd

employees should be studied thoroughly. Find out how benefit costs are built into the earnings and cash flow projections typically contained in the disclosure memorandum.

Scope of investigation

Areas of employee benefits to be reviewed include:

- Pension plans, whether qualified or nonqualified, including termination indemnity plans found in many foreign countries
- 401(k), savings and profit-sharing plans
- Bonus and incentive plans.
- Severance pay and supplemental unemployment benefit
- Welfare plans for active or retired employees and their dependents (e.g., medical and dental benefit, short and long-term disability income, life insurance and AD&D, employee counseling, education reimbursement, vacation, and sick leave)
- Workers compensation
- Executive compensations (e.g., deferred compensation plan, stock options and employment agreements)
- Collective bargaining agreements
- Multi-employer pension or welfare plans
- Foreign plans

Special attention should be paid to any provision in the collective bargaining agreement or the proposed purchase and sale agreement that may restrict the buyer's ability to change the plans or how they are funded. Do not overlook any "golden parachute" or "change of control" provision, which often carries a staggering price tag. Ascertain whether the company or the seller has reserved the right to terminate or modify the postretirement life and health insurance.

In most situations, the big-ticket items are defined-benefit pension and postretirement health care. Often these are the only items that can be reviewed in any detail, given the usual tight timeframe for a M&A project, sometimes ranging from a few days to a few hours. Nevertheless, the actuary should cover as much of the other areas as possible, if only to make sure that there are no surprises.

Any unusual item should be pursued with vigilance, even if it takes the actuary into unfamiliar waters. For

example, one company not exposed to any unusual industrial hazard had projected an extraordinarily high level of workers compensation cost. Further investigation revealed that the company had experienced heavy claims due to careless hiring practices. While those practices had since been corrected, the company was still paying for those claims due to the three-year experience rating system for workers compensation insurance. However, following a change in ownership, the company could wipe the slate clean and immediately reduce its workers compensation premium by 30%, even though neither the insured nor the coverage changed. Such information could be valuable to the people pricing and negotiating for the buyer.

Remember that it is the buyer's responsibility to seek out all the facts. *Caveat emptor.*

Playing with a handicap

Lack of data and time is the perennial complaint of actuaries performing acquisition reviews. People working on the buyer's side are at a natural disadvantage and must cope with these handicaps. The buyer is taking a risk when making an offer for a business based on information the seller supplies. The actuary's task is to make sure that the employee benefit costs affecting the pricing and negotiating process are realistic — neither overly optimistic nor unduly conservative — and to identify and limit the buyer's exposure.

Try to come up with the best cost estimates using available information, then refine those estimates as more data come in.

It is not appropriate to treat an M&A project like a pension valuation, for example, where the actuary requests data and waits for client response. The M&A world is fast-paced, and the pressure in most cases is on the buyer. An actuary working for the buyer must assume a proactive posture, searching for information and examining alternatives.

If an ongoing client relationship exists with the buyer, it is usually not a good idea to refuse an acquisition review just because there is not enough data or time to do a proper analysis. Despite these difficulties, the actuary is still the most knowledgeable person on employee benefits among those working on a M&A project. The project will proceed, however, with or without the actuary's

participation. Without the actuary's needed input, however, someone else may overlook an important issue or make some oversimplified assumption, such as "employee benefit cost is 20% of payroll" (without thinking about shutdown liability, for example).

Everett D. Wong is Senior Manager, Peat Marwick Main & Company.

Call for long-term-care experience

The Society's Task Force on Long-Term-Care Experience is requesting experience data in the following areas:

- Insurance covering long-term care, provided through both individual and group policies, issued by insurance companies and Blue Cross/Blue Shield organizations
- Continuing Care Retirement Communities (CCRC) and insurance sold to CCRCs.

Requests for experience are being distributed to companies known to have offered long-term-care coverage for exposure years 1984-88. However, the Task Force does not have a complete list of those who have written this business. If your firm (insurance company, Blue Cross/Blue Shield organization, or consulting firm with client experience and permission to share it) would be willing to contribute, please call Sam Gutterman, Task Force chairperson, at (312) 565-1500 for further information. In order to make the effort of contributing worthwhile, your firm should have a minimum of 2,500 exposed lives during one of these years.

We are attempting to identify CCRCs willing to contribute experience data to a Society study. If you are associated with a CCRC you believe would be willing and able to contribute, please call Mr. Gutterman. Also, please do so if your company is selling insurance to cover the long-term-care risks of a CCRC and would be willing to contribute experience.

Editorial

Uncertainty

by Barnett N. Berin

Most employee benefit consulting firms have a long run of successful years, some few dating back to the end of World War II. The initial impetus leading to such success was a combination of a strong need for coverage, available tax deductions and the influence of collective bargaining. Most medium- and large-sized companies have had their basic plans in place for many years. For at least the last 10 years, growth has been spurred by legislation, accounting requirements, client mergers and acquisitions, plan terminations with recapture of surplus (with a 10% tax on such surplus), and either reestablishment of the pension plan or the introduction of some form of savings program.

ERISA began a new era for the employee benefit consulting actuary. Legislation over the last several years, culminating in Sec. 89 and OBRA '87, closed the door (forever?) on both simple responses to questions and to certainty.

It isn't easy to deal with issues that raise questions about how to proceed and then find that no answers exist. These situations are more frequent in our business today and are especially apparent when dealing with government regulations, where promised explanations are not issued and our usual contacts cannot respond. Nevertheless, there are some guidelines to follow:

- ERISA clearly states that consultants (and others) should act on behalf of the participants. In these situations, always emphasize the possible approaches, placing this first among equals.
- Common sense suggests that consultants be conservative given several choices; conservative in the sense of choices given to the plan sponsor. This places the plan sponsor in a better position to explain the basis for the course of action selected.

We know certain courses of action cannot be taken. In these situations, don't try to do indirectly what you cannot do directly by relying on the absence of regulations.

- On government forms, where necessary, don't hesitate to add footnotes or attachments as a means of further explanation. And, of course, let your client know.

Short term, the mood is optimistic. Medium-term and long-term, the mood is less sanguine. Legislative and accounting requirements are viewed as ill conceived and, therefore, as generating a less valuable product. Tax simplification has missed employee benefits completely. Pensions, group life, disability and health plans are burdened with complex rules and reporting requirements. This leads to increased work, and employers may ultimately seek simpler arrangements to avoid tax and reporting complexities. This could lead to more administrative work and less technical, actuarial work.

Logic would have the employee benefit environment in the United States vibrant and secure, whether the government is conservative or liberal. Unfortunately, it does not work this way.

In Congress, the staff (assigned to key committees and legislators) usually writes most technical legislation. As a group, staffers are more liberal than the elected members of Congress and suspicious of employee benefit plans as discriminatory in favor of the higher-paid. The latter, of course, is untrue. Employee benefit plans benefit middle America and are much appreciated by that large (silent) majority. Making the situation worse is a history of government activity concerning actuarial issues that has been conducted independently of the actuarial profession. Coupled with that is the lack of effective lobbying by the actuarial profession, although some of this is changing. What is needed is effective liaison between the actuarial profession and congressional staff, really the fourth branch of government but with little of the Founding Fathers' checks and balances because of the technical nature of their work.

We have to avoid complexity, busywork and needless expense. It is ironic that while this work generates more revenue, it is worrisome as to the long-term future of our business.

Significance of the Social Security number

by Bruce D. Schobel

The Internal Revenue Service now requires a Social Security number (SSN) for any person age 5 or above claimed as a dependent. The requirement was enacted as part of the Tax Reform Act of 1986 to prevent multiple taxpayers from claiming the same dependent or the claiming of nonexistent dependents. Because of the need to issue several million new SSNs in 1987 and early 1988 to children, the Social Security Administration (SSA) conducted a public-information campaign called "Cards for Kids."

When the original Social Security Act was moving through Congress in 1935, most of the key policymakers saw that some identifying number would be needed to distinguish the millions of people the program would cover. Many people have similar or even identical names, and some of these even have the same birthdates, as is sometimes discovered when SSA must untangle a rare situation involving two people with the same number. Still, concerns about personal privacy were critically important. (The phrase "Big Brother" had not yet been written by George Orwell, but many people feared the development of such a system by the government.)

Among those most fearful of obtaining SSNs then (and even now) were members of certain fundamentalist religious groups — who regarded government-assigned numbers as the "mark of the beast," something that the Bible warns about. Some even suggested that the government would tattoo numbers on people.

Immediately after the enactment of Social Security in 1935, the estimated 26 million workers covered by the program were able to apply for their SSNs through post offices. Shortly thereafter, as the Social Security Board opened field offices around the country, SSNs were issued there. Applicants were asked if they had previously applied for a number. If not, the local office could issue one immediately, from a stock of unassigned cards each office kept. If an individual had applied before, then

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Social Security number cont'd

the application was sent to SSA headquarters in Baltimore, where it was checked against a gigantic file of applications that almost filled an entire building.

If a number was issued previously, a duplicate card was sent to the applicant; if not, the local office issued a new number. Because checking the huge paper file was often inefficient, especially as it grew over the years, some people were issued more than one SSN. Others were erroneously issued duplicate cards showing numbers previously issued to other applicants with similar names and birthdates.

For example, the SSN's first three digits originally denoted the issuing office location. The lowest digits were numbers issued by offices in northern New England. The numbers increased to the south and the west, with the highest numbers, the 600 series, in southern California and Arizona. (A special 700 series was used for railroad workers.) The last six digits had no special significance. Some other countries — Switzerland, for example — include much more identifying information (such as year and place of birth) in their enumeration systems.

115,000 cards a week

When the local Social Security offices were being opened, the program's administrators estimated that 12,000 SSNs would be issued each week. The actual figure was never less than double that amount. By 1971, the weekly average was 115,000, where it remained until 1987.

This large and growing paper file of old applications, coupled with the increasing need to inspect its contents, led to a 1971 decision to automate and issue all SSNs from SSA headquarters. The significance of the first three digits was essentially retained, except that they denoted the applicant's state of residence rather than the location of the issuing office.

Under the new process, the first numbers were issued from Baltimore in March 1972. Since then, the central office has issued about 110 million of the 315 million SSNs outstanding. About 220 million numbers are active; the rest were issued to people now deceased. The nine-digit SSN-numbering system has the capacity for about 1 billion SSNs. At the present issuance rate, that limit will

be reached around the end of the 21st century.

The SSN was originally intended to be used only for Social Security purposes, and warnings were issued not to use it as a general identification number. However, its use expanded quickly. In November 1943, President Roosevelt issued an Executive Order requiring federal agencies to use the SSN "exclusively" for any new identification system of individuals. In 1961, the Internal Revenue Service first used SSNs as "taxpayer identification numbers." Shortly thereafter, the military and other federal agencies administering welfare and other similar programs adopted the SSN as an identifier. Today the SSN is used to identify recipients of all federal payments, as well as interest, dividends, and other forms of income.

The Privacy Act

While use of the SSN was expanding, the government continued to protect individual privacy rights. The Privacy Act, enacted in 1974, forbids any federal, state, or local government agency from denying an individual any right, benefit, or privilege for refusing to disclose an SSN. This legislation does not apply, however, in cases where disclosing the SSN is required by federal law, as is the case for the Social Security program, or where using the SSN as an identifier began before January 1, 1975.

The Social Security Amendments of 1972 provided the first criminal penalties for furnishing false information to obtain an SSN. The Tax Reform Act of 1976 expanded that provision to make misuse of an SSN a federal crime. In 1981, another law upgraded both crimes to felonies. The Social Security Amendments of 1983 required substantial improvements to the Social Security card, which is now printed on durable, counterfeit-resistant paper stock, with several hidden anticounterfeiting features. With the requirement in the Immigration Control and Reform Act of 1986 that many job applicants show their Social Security cards, the integrity of the card has become even more important.

Applicants for SSNs must establish their age, generally by submitting a birth certificate or religious record of birth filed before age 5. Applicants must also establish their identity, preferably with a document that includes

a signature. Foreign-born applicants must establish U.S. citizenship or legal residence status. (Noncitizens are sometimes able to obtain special "non-work" SSNs; their cards are printed with the words, "Not Valid for Employment.") Parents applying on behalf of minor children must provide evidence of each child's date of birth, identity, and citizenship, as well as the parent's own identity. Applicants age 18 or older must apply in person at a Social Security office. Applications for younger persons may be submitted by mail, along with original documents, which will be returned.

Even with the recent heavy workload, the average time required to issue an SSN has fallen, from six weeks a few years ago to 11 days today. In addition, a new program — operating in some states — allows parents to request that a SSN be issued for their child at birth, using information directly from the birth certificate. As this successful program expands, we may get closer to the system feared by many in 1935, but it does not seem so scary now to most of us.

Bruce D. Schobel is Senior Consultant, Social Security Division, Mercer-Meidinger-Hansen Inc. He is Education Vice Chairperson of the E&E Committee.

New club forming in Washington, D.C.

A new local actuarial club in Washington, D.C., will hold its first meeting December 1. SOA President Ian Rolland will be the guest speaker.

Club membership is open to actuaries in the greater Washington area (including Baltimore) who are members of the Society, American Academy of Actuaries, or one of the other actuarial organizations, or who meet certain requirements based on amount of actuarial experience and examination credits. Notices and application forms have been mailed to all area actuaries who have been identified as potential members. Applicants responding by November 15 can qualify as charter members.

If you have not received a notice and application form and feel you may qualify for membership, please contact: Charles M. Kramer
Williams Thacher & Rand Inc.
7979 Old Georgetown Road
Bethesda, MD 20814
301-654-0505

Contrasting views on Social Security's future

by Yung-Ping Chen

Robert J. Myers and A. Haeworth Robertson present diametrically opposed views on Social Security's future: Myers believes it is viable, while Robertson argues it is not. Whom should we believe? Unless the differences between these highly respected former Social Security chief actuaries can be resolved, the general public will be bewildered and its confidence in the program may decline even further. As a first step toward reconciling these contrasting views, it is necessary to analyze their differences. Such an analysis may lead to a better design of Social Security.

The definition of Social Security

Myers defines Social Security as OASDI (Old-Age, Survivors, and Disability Insurance) but does not include Medicare — Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) — because OASDI provides cash benefits whereas Medicare provides benefits based on services rendered. On the other hand, Robertson includes OASDI and HI in his definition, because payroll (FICA) taxes support both. Even though SMI is not financed by FICA taxes, Robertson considers it an integral part of Social Security.

While it is logical to consider the cost of OASDI and HI jointly because of FICA tax support, it seems more useful to separate the two, owing to the difference in the nature of their benefits. Moreover, according to the best-guess official estimates, the HI trust fund will be exhausted shortly after the year 2000 and the OASDI trust funds some 50 years later. One possible outcome of considering the joint cost (assuming no additional financing and assuming interfund reallocation of payroll tax rates) is postponing HI's exhaustion date and hastening OASDI's. This will threaten confidence in the cash-benefit program without greatly improving the financial prospect of the service-benefit program. I therefore advocate keeping OASDI and Medicare actuarially separate.

The actuarial status of OASDI and Medicare

The Social Security Administration publishes four sets of estimates: Alternative I presents an optimistic forecast, and Alternative III a pessimistic one, while the intermediate estimates have two alternatives, with II-A being more optimistic than II-B. Alternative II-B is used by most policymakers as the basis for best-guess projections.

Myers points out that the experience of OASDI since the 1983 amendments has been better than even the intermediate II-B estimates. Furthermore, starting in the 1990s, such a huge buildup of the OASDI trust funds is projected under estimate II-B that a level of more than five times annual outgo will be reached around the year 2015.

Defined by Myers as a "term insurance program," SMI is actuarially sound — as are most health insurance plans for active workers — but its problem is rising cost over the years, which is also a problem for HI. He stresses, however, that HI's problems are not confined to this government-operated program alone and that the growing cost of health care is an issue facing the entire nation in general.

By contrast, Robertson, using the pessimistic Alternative III assumptions, warns that it will ultimately require 40% to 50% of taxable payroll to deliver the OASDI, HI, and SMI benefits presently scheduled under the law.

While agreeing with Myers that the economic problem of rising unit costs of HI and SMI is common to all health care insurers, I believe that the demographic problem emphasized by Robertson — the growing proportion of the older population — is of singular importance to HI and SMI.

When SMI is defined as a term insurance program, it is actuarially sound as long as it is financed from general revenue and premiums charged to enrollees. However, since SMI, like HI, makes long-term benefit promises, we must be concerned with its long-term financing implications. I therefore advocate considering HI and SMI together actuarially, since both provide benefits based on services rendered to a defined population group.

The ability and willingness of future workers

To the question of whether the ultimately much higher costs of OASDI and Medicare programs (20 percent of taxable payroll each from the employer and the employee) can be met, Myers answers yes, as long as the increase is made gradually over the years. This is realistic, thanks in part to growing productivity and the resulting gains in real wages. He believes that either tax rates could be increased or normal retirement ages raised to stabilize the system.

Robertson, on the other hand, believes that future generations will be unable or unwilling to pay the high taxes. He further stresses that even if they do pay, the current system will be inappropriate for the future.

One's faith in Social Security's future is largely determined by one's outlook on the developing relevant economic and demographic factors. But we should not be guided solely by our optimism or pessimism. I firmly believe we could err on either side, overpromising or overcutting benefits. We simply do not know the future, and each generation must look at its problems in its own way.

Changes suggested by Myers and Robertson

Myers considers the present tax rate schedule undesirable. He feels that building up the fund over the next 25 to 30 years, only to use it up later, is not a proper way to finance either a social insurance system or a private pension plan. He proposes implementing a pay-as-you-go tax schedule. Beginning in 1990, then, automatic adjustments to the tax rate would be made to keep the trust-fund balance at a level of about a half-year's outgo. If the fund builds up beyond that point, the scheduled tax rates could be lowered; if it falls short, rates could be raised. Though without specifics, Robertson also calls for a flexible system.

Flexibility is central to good planning. The method of providing flexibility and the outcome of that flexibility for taxpayers and benefici-

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23rd International Congress of Actuaries

by William J. Bugg, Jr.

The 23rd International Congress of Actuaries drew 1,300 actuaries from 50 countries to Helsinki, Finland, July 10 – 16. The Congress is held every four years; it probably takes this long to arrange and coordinate the many activities. This year's Congress was sponsored by the Actuarial Society of Finland, with support from the Finnish Life Insurance Companies. The Congress's threefold objective was, first, a scientific program dealing with topics of current actuarial interest; second, opportunities for meeting old friends and making new acquaintances; and third, activities allowing participants to become acquainted with Finland.

Much work went into the scientific program. Five major subjects were selected early in the planning, and a

Contrasting views cont'd

aries are critically important. Fundamentally there are only two sides to the Social Security equation: taxes and benefits. Myers seems somewhat more disposed to adjusting the tax side of the equation (although raising the retirement age involves adjusting the benefit side), while Robertson appears inclined toward adjusting the benefit side – cutting benefits to prevent future taxes from rising.

With a Social Security system that makes promises on benefits payable as far as 75 years into the future, it is not prudent to bind future generations to what might amount to very high tax rates. Nor do I think it wise to cut benefits now on the assumption that the promised benefits will be unaffordable in the future. To plan for the future, we need a financing mechanism to guard against being too optimistic or too pessimistic in setting taxes and benefits under Social Security.

Yung-Ping Chen, Ph.D., not a member of the Society, holds the Frank J. Manning Eminent Scholar's Chair, University of Massachusetts at Boston.

call for papers on these topics was presented three years before the meeting. The subjects were:

- Fluctuations in Insurance Business Results
- Prospects for Social Insurance and Private Employee Benefit Plans
- New Avenues in Modelling Life Insurance and Other Insurance of Persons
- Actuarial Challenges of Reinsurance
- The Applications of Modern Techniques to the Investment of Insurance and Pension Funds

National reports were also prepared on the functions of an actuary within each country. The Scientific Committee accepted and published 161 papers in six volumes comprising about 2,500 pages. A summary of each article was prepared in other languages of the author's choice: English, French, German or Spanish. These volumes were mailed to registrants several months before the meeting. A final volume containing the lectures and discussions presented at the Congress will be mailed later this year.

At registration each person was given a backpack emblazoned with the Congress logo and containing material on the Congress and Helsinki. It was easy to recognize fellow actuaries as we traveled around the city with the backpacks. Also, each actuary received a stainless steel plate of Finnish design as a remembrance.

The Congress opened Monday morning with music written by Jean Sibelius, Finland's best known composer, followed by greetings from Andre Lamens, President of the International Actuarial Association (IAA); Asko Tanskanen, President of the Congress; Tarja Halonen, Finnish Minister of Health and Social Affairs on behalf of Mauno Koivisto, the President of Finland and a patron of the Congress; Timo Honkala, Chairperson of the Helsinki City Board, and Pentti Talonen, Chairperson of the Federation of Finnish Insurance Companies;

The Scientific Program started Monday afternoon and continued through Friday. Discussions took place on each subject, with the format consisting of a lecture followed by

statements from the audience. Most lectures and discussion presentations were in English. Simultaneous translations in English, German and French were available.

In addition, several meetings were held to discuss special topics, including the capital needs of insurance companies, insurance problems caused by AIDS, life insurance reserving and regulation, social security activities, and an ASTIN meeting.

The creation of a finance group within the IAA was also announced. This new section will be known as AFIR. Its objective will be to apply actuarial methods in the analysis and management of financial risks and to consolidate actuaries' experience gained through such study. AFIR will have its first conference, a symposium on "Actuarial Approach for Financial Risk," in Paris in 1990.

The meetings took place at Finlandia Hall, a building designed by the Finnish architect Alvar Aalto, renowned for the subtle angular and asymmetrical nature of his designs. From a distance the building, a popular site for concerts and conferences, resembles a baby grand piano. Just this past May, President Ronald Reagan gave a speech in Finlandia Hall during his stopover in Helsinki before the Moscow Summit Meeting.

The social program offered a welcoming reception on Sunday evening, receptions on Monday evening at one of seven different Finnish companies, and a Friday evening banquet. During the week there were other receptions sponsored by consulting firms and software companies. The opening reception was highlighted by Finnish delicacies, including salted trout, baked whitefish, and Lapland cheese with cloud-berry sauce.

At the Monday evening receptions, we experienced more Finnish foods: herring filets stuffed with roe, baked salmon, and smoked reindeer. We enjoyed the warm hospitality of our Finnish hosts and the opportunity to find out how their companies operate.

The Friday evening banquet was held in the Dipoli Hotel, designed by

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International Congress cont'd

students from an architecture school in Helsinki. No walls in the hotel intersect at right angles, resulting in some very unusually shaped rooms. Tables were set up everywhere to accommodate the large crowd. Attention was given to assigning people from different countries to a table, as long as they spoke the same language. The food and drink were delicious and the meal was followed by music and dancing.

Various tours were arranged for the attendees. Everyone received a sightseeing tour of Helsinki. In addition, there were numerous excursions and events for the 1,000 accompanying persons. For those who could afford additional time, there were tours before and after the Congress. These included a tour of Lapland; a tour of the Finnish lake district northeast of Helsinki, the most extensive lake region in Europe; and a tour of West Finland, the country's oldest inhabited and cultivated region. In addition, tours were arranged to nearby Leningrad by air and boat.

The highlight of our exposure to Finland and its culture came on

Wednesday, the excursion day. The Finnish summer is filled with cultural events, and we were taken to Savonlinna to attend an opera. Savonlinna is a charming old town surrounded by lakes in eastern Finland, 350 kilometers from Helsinki. It was quite a logistical task to get us there and back. Because of the number of people, we were split into two groups. One group went by train and returned by plane, whereas the second group did the reverse. Savonlinna hosts an opera festival at Olavinlinna Castle, some 500 years old and surrounded by water. We were privileged to attend a presentation of *Aida*, by Giuseppe Verdi. The four-act, three-hour opera was presented in the afternoon. Scenes involving the entire cast of hundreds were spectacular.

July is usually Finland's best month for weather, with highs in the 70's and frequent summer showers. This year Helsinki experienced a very unusual weather pattern, sunny and dry with temperatures some 15 to 20 degrees higher than the normal. This resulted in some warm meetings because the buildings were not built

with such conditions in mind. Many participants had not brought clothes suitable for such warm weather. It was interesting that the dress at the meeting became more informal as the week went by.

The Congress closed Saturday morning. Summary reports of the discussions at the various sessions were presented. This was followed with remarks by representatives of the different language groups as to their impressions of the Congress. Finally, there were closing remarks by Asko Tanskanen, President of the Congress, and Andre Lamens, President of the IAA, who issued an invitation to the 1992 Congress, which will be held in Montreal.

In the words of Tanskanen, "It is important to improve our own professional competence, but it is equally important to get to know new countries and to strengthen existing personal relationships." All who attended agree that this was accomplished at the Congress.

William J. Bugg, Jr., is Senior Vice President and Corporate Actuary, American Family Life Assurance Company of Georgia.

Just for fun

Lyrics of the "Actuaries Club of Boston Follies," 3/13/84:

1. To the tune of "Let Me Entertain You"

Extra, extra, hey look at the headline, actuarial history's being made.

Actuaries will now sing and dance, and you know that they're usually afraid.

Don't scoff and don't leer, just sit back and cheer,

Remember that it may be YOU who's up here next year.

So let us entertain you, let us make you laugh.

We will be beguiling, but if you're still not smiling, we'll maybe draw a graph.

And if we're real good, please make us feel good, it wouldn't be such a crime.

So let us entertain you,

And you'll have a real good time; at least, we'll have a real good time.

2. To the tune of "You've Gotta Have Heart"

You've gotta pass part, all you've gotta pass is part.

Four and five are split in a's b's and c's, we don't know where to start.

You've gotta have hope, mustn't sit around and mope,

Just remember that a six is enough, study the stuff and hope.

The exams are in transition, so no matter what we do,

They'll be harder; in addition, what was one will now be two. Boo hoo hoo.

You've gotta pass parts, miles 'n' miles 'n' miles of parts.

You don't have to be a genius of course, but passing exams is quite an art.

First you've gotta pass part. You don't have to be smart. So you mustn't lose heart.

Just get ready and start. First you've gotta pass part!

3. To the tune of "Play a Simple Melody"

Let me learn my life contingencies like Chet Jordan teaches me.

With old Chester you can master these q's and p's from A to Z.

Give me statistics that are probabilistic, this new book is okay,

It turns the work into play, boy I could read it all day.

You'll find those functions in tandem with those variables random help you generate q's,

And p's and also amuse, oh Jordan's really passed!

4. To the tune of "It Don't Mean a Thing If It Ain't Got that Swing"

What good is fellowship? What good's promotion? When all that we should do is breed.

They say that it's a shame, they tell us we're to blame,

So where's that point two child that we need?

We'd save OASDI if we'd give birth a try, Doo wah doo wah...

So says some smart guy, yes, but we'd much rather die! Doo wah...

So you have two plus children, that sounds fine,

But we can't even cope with one point nine.

Ooo, We'd save OASDI if we'd give birth a try, Doo wah...

The author? Initials are D.A.P., The Actuary's features editor.

Dear Editor:

Who gets credit for 'Kisses'?

In the June *Actuary*, Mr. Brae incorrectly credited Pat Boone as the artist who sang "Kisses Sweeter than Wine." I believe the artist who made the song a hit was Jimmie Rodgers. Even though Mr. Brae may be quickly demolishing any credibility he may have had, I encourage him to continue submitting his excerpts from *Actuaries: Fact? or Fiction?* I find them quite witty.

Philip A. Velazquez

Jibe or jest?

The following letter and reply appeared in the "Portfolio" column by Edward Clifford in the *Toronto Globe and Mail* June 15, 1988. I don't know whether we were the butt of a tasteless flippant comment or part of an obscure jest. I am pretty sure that Tom could give a clear and logical defense of his second offer and I was quite surprised that it came out to just over (10 cents) a split of the difference.

However this shot is perceived we must remember that it doesn't matter what they say about us as long as they say something. Very few people have anything good to say about lawyers yet they thrive. Maybe some day actuaries will be as widely known and more widely respected.

Frederick J. Thompson

Claims interest lost when RRSPs transferred

I transferred two RRSP funds from Standard Life Assurance to Royal Life Insurance upon their maturity, giving four days notice in the case of one \$63,000 certificate, and 16 days notice in the case of a second worth \$28,600.

Although notice was given in writing in a letter dated March 8, the money did not reach Royal Trust until April 7 and April 15, respectively. I lost 15 days of interest on one certificate and 26 days on the other and calculate that the delays cost me \$525 in lost interest.

I wrote Standard Life and complained. Subsequently, I received a letter from T. H. Golberg, the senior vice-

president, offering me a settlement of \$248.79 and telling me the company cannot be held responsible for any delays caused by Canada Post.

I don't think it's a fair offer but I did factor in a three-day mail delay and reduced my claim to \$455, which is where matters sit now.

Manny Bloom
Hampstead, Que.

(Subsequent to the time Mr. Bloom contacted us, Mr. Golberg made a second offer on behalf of Standard Life of \$387. Mr. Bloom still thinks Standard, with assets of \$4.7-billion, is "nickel-and-diming me," but has decided to take the offer.

Standard's settlement is almost exactly half-way between Mr. Bloom's first claim and Mr. Golberg's first offer. It could be just a coincidence but it is a point worth bearing in mind when seeking redress from any company that carries actuaries on its payroll.)

Exams, meeting dates conflict

We appreciate the efforts of the Program Committee in arranging Society meetings, and the importance of planning dates and locations years in advance. However, it seems advisable where possible to avoid scheduling meetings on the same days the actuarial exams are given (i.e., early May and November). The May 16-17 dates for the Louisville meeting may have been unavoidable. However, its timing made the task of recruiting supervisors for the exams more difficult. This could become worse as the number of courses increases in the future.

We recognize that some future Society meeting dates (such as May 1991) may be impossible to change. However, we hope that a fairly high priority could be given to avoiding conflicts between actuarial exams and Society meetings in the future.

Wilbur M. Bolton
David J. Hippen

Yearbook lacks exam information

I don't want to enlarge the SOA *Yearbook* any more than you do. (Nor do I want to enlarge the staff or amount of dues.) Still, something is missing.

It would seem fitting for the *Yearbook* to tell us a bit about what is on the actuarial exams. At present, we get only a footnote on page 45, stating that we can send for catalogs if we want to know. And we can glean some fragments of data about exam topics from the E&E Committee listings on pages 14 - 17, if we think to look there. Have the exams grown too complex to summarize on one or two pages? If so, we have come a long way - at one time the exams were reproduced in full in the *Yearbook*. Shouldn't the actuary of the future be able to look up changes made in the exam structure by consulting the *Yearbooks*?

One can easily find things to improve in the *Yearbook* any year. It's interesting to note that the many listings in the *Yearbook* don't seem to list anyone - officials or staff - directly in charge of the *Yearbook* itself. Hence my modest proposal: just tell us who is chief editor of the *Yearbook*. Let that individual take credit for the integrity of a reference that gives full value with every page. In time, such topics as exam information will no longer fall through the cracks. And anyone with suggestions about the *Yearbook* will know how to contact the right person instead of writing letters such as this one.

Richard G. Schreitmuller

Census Bureau's Fifth Annual Research Conference announced

The Census Bureau's Fifth Annual Research Conference (ARC V) will be held March 19-22, 1989, at the National Clarion Hotel in Arlington, Virginia, only 1/2 mile from National Airport and three blocks from Metro. ARC V will comprise a mix of topics such as nonsampling errors, new techniques in questionnaire design, analysis of complex survey data, and geographic systems. For further information, contact Maxine Anderson-Brown, ARC Conference Coordinator, Office of the Director, Bureau of the Census, Washington, DC 20233, 301-763-1150.

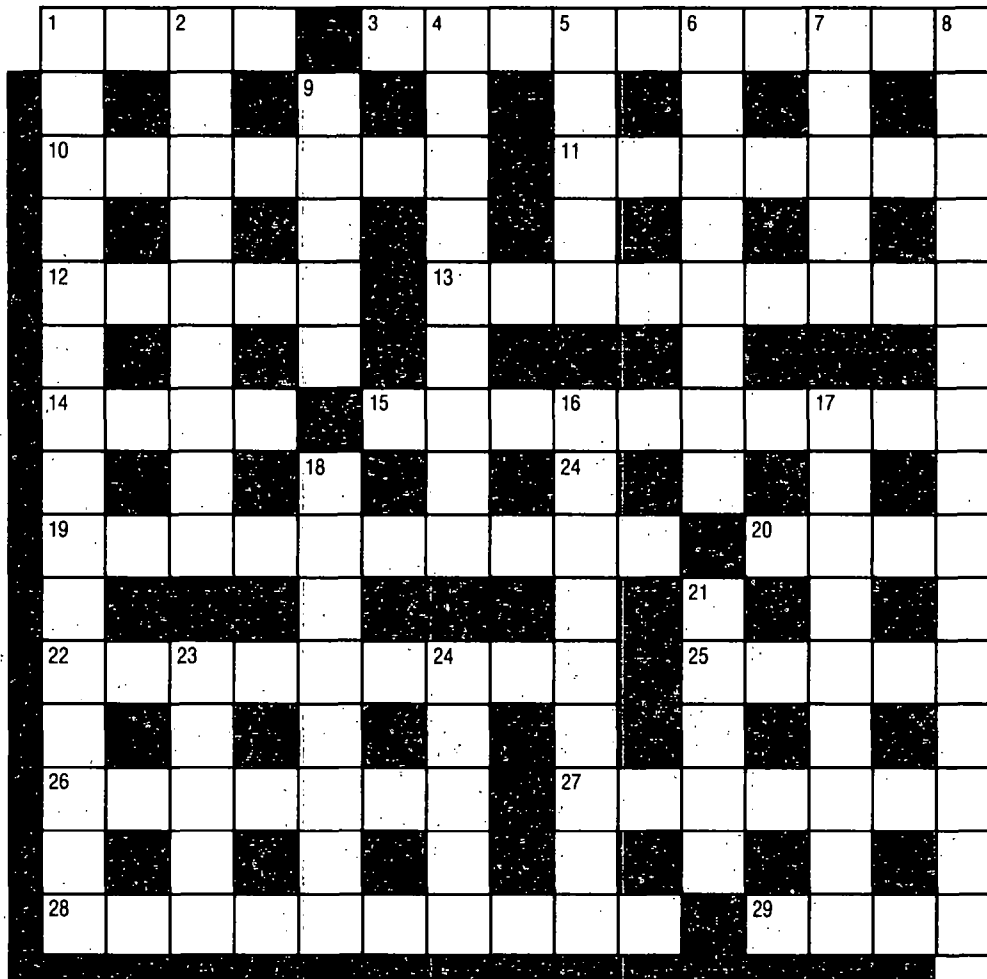
ACTUCROSSWORD

Across

1. Place of confinement of Malacca gems (4)
3. Recent Meeting place to arouse juvenile envy (10)
10. Fuss in the stables, yet there's plenty of grass (7)
11. If fresh he may be disturbed by outlaws (7)
12. This writing may be of medical character (5)
13. Seat of power in this is at home (9)
14. Source of love from admirer osculation (4)
15. Just inexpensive assessment of calculated results (10)
19. Increase intensity - with reserve? (10)
20. 13 without curves (4)
22. Get to top, Martin, high up, anyway (9)
25. Assumption of problem makers (5)
26. There is just one snag about this illumination (4,3)
27. In the City toil about: Rest In Peace (7)
28. Set theory so described on P.22 students may disagree (10)
29. His old man underwent continuous liquid revolution (4)

Down

1. Popular major to meet in soccer cup (8,7)
2. \$1,000 rout planned extended visitation (5,4)
4. One who provides cover, briefly, for a rebel (9)
5. 13s, sometimes feathered (5)
6. Being overcome as result of investment (8)
7. Estranged as Ruth's corn (5)
8. Order in tie in for fated discriminating (15)
9. Short in French for enclosed space (5)
16. Stop and trace observer (9)
17. Progressive quadrupeds in a party (4,5)
18. Plot the ambition of your compiler (8)
21. Aptitude of small state and country (5)
23. Liable to be lying down (5)
24. Valuable taken back from Contessa (5)



September's Solution

100% SOLVERS — *June*: W Allison, D Baillie, M & D Brown, S Colpitts, C Conradi, B Fortier, C Galloway, J Grantier, M Grover, F Hogan Family, R Hohertz, A P Johnson, O Karsten, S

TWOBIT TIPSTAFF
 OUNDED TUNNA
 UNASKED TRENCH
 LUTHERIAN
 OMEN SODERJUGL
 URBAN TROUBLE
 SISTER MINDTAUR
 EARTHQUAKE
 LEAPYEAR ANGLES
 AURAS DES
 URDU IDOLS GARD
 TULSODA
 RUBBISH PARASOL
 EOSTLEA
 CENOTAPH GLOBES

Keys, R & J Koch, D Leapman, P Marks, R C Martin, G Mazaitis, G D McDonald, R A Miller, H Migotti, B Mowrey, L Oxby, E Portnoy, B Rickards, N Shapiro, G Sherritt, B & J Uzzell, and M Vandesteeg.

Send solutions to: Competition Editor, 8620 N. Port Washington Rd (312), Milwaukee, WI 53217

ACTUCROSTIC

- A. Pleasurable satisfaction; felicity. _____
48 182 128 160 85 20 229 61 212
- B. Acquire; get. _____
68 110 139 32 183 220
- C. A common breakfast entree. _____
3 174 63 234 189 130 90
- D. Alimony. (4 wds) _____
240 192 104 43 114 217 143 31

154 65 177 8 202 51 232 126 16

163 91 223 23 74
- E. Pleasant feeling following a pleasant experience. _____
7 101 175 135 27 86 230 199 170
- F. One who owns and controls wealth. _____
21 155 134 113 179 227 97 44 206 72
- G. He hit her ball closer to the hole. _____
57 190 228 80 34 120
- H. Harmful; unhealthy. _____
1 142 201 176 55 225 100 75 207
- I. Nor's precedent. _____
152 54 102 18 180 132 78
- J. Pale yellow or ivory edging. (2 wds) _____
70 37 103 122 238 146 59 188

25 162 194 216
- K. Adequate; with N completes a rigid proof. _____
5 222 14 186 96 203 206 83 46 144
- L. Chasten; severely criticize. _____
136 169 62 204 151 45 187 224 26
- M. A machine-woven carpet; town in England. _____
111 69 184 15 39 131 158 233 165
- N. Absolutely needed; esstential. _____
121 196 149 167 84 17 49 106 231
- O. A small, hooved animal; in Bible called "cony". _____
221 38 66 196 108
- P. Strong physical effort. (infml) (2 wds) _____
42 129 156 185 28

109 89 235 148 71 58
- Q. Heftiest; most massive. _____
6 138 40 215 81 112 237
- R. Rough calculation; quick approximation. _____
88 214 50 140 67 13 118 157
- S. Conference. (5 wds) _____
4 226 36 211 47 107 191 94 22 172

56 145 93 200 127 10 161 82
- T. Pollute; contaminate. _____
2 116 213 173 79
- U. One that discovers a way. _____
115 219 137 73 9 239 24 41 164 92
- V. The extraction of a mathematical root. _____
19 53 141 168 95 197 123 105 218
- W. A handicap in golf. (2 wds) _____
11 193 52 76

150 209 33 181 166 117 99
- X. Very near; close. _____
125 210 171 133 29 195 159 98 60
- Y. The hoopla mentally created an elegy. _____
64 236 147 119 87 30
- Z. Any term in a mathematical expression. _____
77 35 178 12 153 124 208

1	H	T		3	C	4	S	5	K		6	Q	7	E	8	D		9	U	10	S	11	W	12	Z		13	R		14	K	15	M	16	D	17	N	18	I					
19	V	20	A	21	F	22	S	23	D	24	U	25	J	26	L	27	E		28	P	29	X	30	Y	31	D		32	B	33	W		34	G	35	Z	36	S	37	J	38	O	39	M
40	Q		41	U	42	P	43	D	44	F	45	L	46	K		47	S	48	A	49	N	50	R		51	D	52	W	53	V	54	I	55	H	56	S	57	G	58	P	59	J	60	X
61	A	62	L		63	C	64	Y	65	D	66	O	67	R	68	B	69	M	70	J	71	P		72	F	73	U	74	D		75	H	76	W	77	Z	78	I		79	T	80	G	
81	Q		82	S	83	K	84	N	85	A	86	E	87	Y	88	R	89	P	90	C		91	D	92	U	93	S		94	S	95	V	96	K	97	F	98	X	99	W		100	H	
101	E		102	I	103	J	104	D	105	V	106	N	107	S	108	O	109	P		110	B	111	M	112	Q	113	F	114	D		115	U	116	T	117	W	118	R	119	Y	120	G	121	N
122	J		123	V	124	Z		125	X	126	D	127	S	128	A	129	P	130	C	131	M		132	I	133	X	134	F	135	E	136	L	137	U	138	O	139	B	140	R	141	V	142	H
143	D		144	K	145	S	146	J		147	Y	148	P	149	N	150	W	151	L	152	I	153	Z	154	D		155	F	156	P	157	R	158	M		159	X		160	A	161	S		
162	J	163	D	164	U	165	M	166	W	167	N		168	V	169	L	170	E		171	X	172	S		173	T	174	C	175	E	176	H	177	D	178	Z		179	F	180	I	181	W	
	182	A	183	B	184	M		185	P	186	K		187	L	188	J	189	C		190	G	191	S	192	D	193	W	194	J	195	X	196	O	197	V	198	N		199	E	200	S		
201	H	202	D	203	K	204	L	205	F		206	K	207	H		208	Z	209	W		210	X	211	S	212	A	213	T	214	R	215	O		216	J	217	D	218	V		219	U		
220	B	221	O		222	K	223	D	224	L	225	H	226	S	227	F	228	G	229	A	230	E	231	N		232	D	233	M	234	C	235	P	236	Y	237	Q		238	J	239	U	240	D

LAST MONTH'S SOLUTION: C(harles) Krauthammer, The Joy of Math, (or Fermat's Revenge) - "Fermat's last theorem is the worlds most famous unsolved mathematical puzzle. He wrote, 'I have discovered a truly remarkable proof which this margin is too small to contain.' For one brief shining moment it appeared as if this century had justified itself. Fermat's last theorem had been solved." TIME, April 18, 1988.

