



SOCIETY OF ACTUARIES

Article from:

The Actuary

April 1989 – Volume 23, No. 4



The Newsletter of the
Society of Actuaries

VOL. 23, NO. 4
APRIL 1989

THE Actuary

Year-end review and a look ahead at Canada-U.S. Free Trade Agreement

by Laurence E. Coward

The Free Trade Agreement between Canada and the United States was the most important issue facing Canada in 1988 and became the subject of heated controversy. The agreement calls for each country to provide the same "national treatment" for goods imported from the other country as for domestic goods. Thus, although Canada and the United States can differ in their taxes, laws, and safety standards, they must not discriminate against each other's products.

The Free Trade Agreement became the central issue in the federal election of November 21, 1988, which was generally regarded as a type of plebiscite on free trade. The Conservative party under Brian Mulroney won a majority of seats in the House of Commons and promptly proceeded to implement the agreement. Many Canadian industries will be affected, some for the worse, but more, we believe, for the better, during the 10-year transition period. The agreement's effect on our social security system (Old Age Security, Canada/Quebec Pension Plan, Unemployment Insurance, and Medicare) became a matter of debate but is likely to be minimal. Indeed, the growing prosperity anticipated as a result of the agreement will improve the finances of these programs, making the payment of benefits more, rather than less, secure.

Tax reform

Phase 1 of the government's tax reform initiative received Royal Assent

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Two reactions to Report on Strengthening the Profession

In an effort to encourage discussion of the recent Report of the Task Force on Strengthening the Profession, The Actuary presents two viewpoints on the task force recommendations. Allan D. Affleck, writing from his vantage point as an SOA officer, discusses the report's recommendation to increase the public interface role of the American Academy of Actuaries. Eric L. Kranke, former president of the American Society of Pension Actuaries, talks about how his organization would be affected by the proposed joining of ASPA actuaries and the Conference of Actuaries in Public Practice. Next month's Actuary will feature two more reactions to the report.

Strengthening to do what?

by Allan D. Affleck

When the editor of *The Actuary* asked me to write an article about the report of the Task Force on Strengthening the Actuarial Profession, I thought there would be little point in repeating what you can read in the task force analysis and presentation. Instead, I decided to offer my personal perspective on where I think the profession should be heading in the future.

As we consider the task force report, we might all ask ourselves, "Strengthen the profession for what?"

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ASPA member speaks out on change

by Eric L. Kranke

First, I want to offer my sincere congratulations to the Task Force. They have effectively dealt with a many faceted situation and have come forth with a realistic proposal.

In reading the task force report, we see words like reorganization, unification, and strengthen. To me, they all mean CHANGE. Many actuaries do not appreciate change, especially if a need to change is not perceived. I am no different. I make a good living, I deal with clients whom

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I respect, and my future income level not deemed to be subject to any serious shortfalls, even though I work in the pension area. So, what do I need with change! Why would I want to develop new affiliations, new colleagues, and new methods of dealing with outsiders? I guess my resistance to change is directly proportional to my age and "time in the business." This is a normal reaction, I hope.

But the task force demonstrates the need for the actuarial profession to shed the "noninvolved, egghead" stereotype image that in some ways we richly deserve. Consider our ineffectiveness in the pension area: We have accountants telling us how to calculate and report pension liabilities, government employees telling us proper funding techniques and assumptions, and our legislators making laws that negatively impact the retirement security of millions of Americans.

Yes! We need to change!

However, change is much more easily talked about than accomplished. Actuaries have, as the report points out, developed deep-seated loyalties toward the associations that have served them. Obviously, I believe the one to which I belong has served me best. ASPA came closest to meeting "all" of my needs. I have felt no urge to join the other actuarial organizations...until I read and carefully evaluated the task force report. The report has forced me to take off blinders.

Each actuarial organization will be forced to CHANGE, in accordance with the report. Some, more than others. From ASPA's standpoint, we lose the name that carries a positive connotation with the various government agencies dealing with pensions. Some members feel that the actuaries in ASPA will leave ASPA, and that this will negatively impact the membership in the organization, after the name change. Personally, I do not see this happening. I joined ASPA specifically to gain the experience and association with pension consultants, some of whom also happen to be actuaries. If I chose to join a strictly pension actuarial association — that, most certainly, would not decrease my desire for continuing the consulting association.

We all have some questions to ask ourselves regarding the task force suggestions. Will this change in "organization or association" decrease my facility to have a say in what direction the public interface goes? In what services are offered to pension actuaries? In determining what principles and practices are to be adhered to by pension actuaries? I hope not! Actually, it will be up to me to determine that. It is usually a function of personal involvement. With the new organization, I do not see any great obstacles to anyone who wants to get involved — to get involved.

In fact, this larger association with other actuaries with similar interests extends the limits of my current affiliations. It gives wider latitudes to my learning from the experiences and techniques of other actuaries. Specifically, I expect the association with the actuaries in CAPP to expand my horizons. Perhaps I can offer something to them, also.

One final thought. My 17-year-old high school senior son has exhibited some facility in math. I would be remiss if I did not encourage him to join the "number-one" occupation. I would like to see him have the opportunity to join his actuary colleagues in a single cohesive association respected by outsiders for its professionalism and purpose and appreciated by its members for the services it gives them. I, therefore, consider our current deliberations over strengthening the actuarial profession an important step in preserving future opportunities for the actuaries of the future.

In summary, this CHANGE will be questioned by some actuaries for many valid reasons. Unfortunately, some actuaries will resist any change, however farsighted the reasons for the change may be. It will be up to the leadership of the actuarial organizations in North America to deal effectively with the comments of their constituents. It will require compromise, concessions, and concentration on the objective. I am certain we will all gain from these activities in 1989 and beyond.

Eric L. Kranke, a former President of the American Society of Pension Actuaries, is President, Pension Actuaries, Inc.

Year-end cont'd

on September 13, 1988. This phase, effective on January 1, 1989, reduced personal income taxes for most Canadians by cutting the number of tax brackets to three and reducing the marginal tax rates. In addition, some tax exemptions and deductions were changed to tax credits, which will help low-income taxpayers. Parallel changes will be made in provincial tax legislation. Phase 1 of the tax reform changes is to be accompanied by a federal sales tax, which will be imposed later.

Another package of income tax changes was presented on March 28, 1988, in a paper entitled "Tax Assistance for Retirement Savings." This legislation would set a comprehensive limit on the tax shelter an individual could obtain through registered pension plans, deferred profit-sharing plans, and Registered Retirement Savings Plans (RRSPs). The limit would be equal to 18% of earnings, subject to a dollar maximum that would rise to \$15,500 in 1995 and would then be indexed. The value of the benefits earned in a year under a defined-benefit pension plan would be deemed to be nine times the annual pension for service in the year, minus \$600; this is known as the Pension Adjustment (PA). Hence an employee may contribute to RRSP an amount equal to the comprehensive limit minus the PA. (There may be further adjustments for employees who terminate employment or for amended pension plans.) It is proposed that taxpayers who do not contribute the maximum allowed for the year to their RRSPs may carry forward the unused contribution room for the next six years.

The maximum annual pension allowed from a Registered Pension Plan under the proposals will be \$1,722.22 times the number of years of pensionable service, with no limit on service. This limit will not change until after 1994, when it will be indexed. Thus the maximum pension will be \$34,444 a year for 20 years of service or \$60,278 for 35 years (indexing ignored). Much attention is being focused on supplementary pensions for the growing number of employees who will be affected by the maximum pension limit.

The government has announced a one-year delay in the income-tax measures relating to retirement