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FES brings dramatic changes to pension education system

by Wayne R. Berney

The SOA basic education curriculum for pension actuaries has changed so much with the recent introduction of the Flexible Education System (FES) that actuaries who qualified only a few years ago will find the difference dramatic. Those pension actuaries who went through earlier versions of the SOA examination syllabuses may be interested in the great strides forward that have been made in our basic education system.

The FES for Fellowship examinations requires candidates to choose a specialty track after completing the three common core courses. The three specialty tracks offered are Individual Life and Annuity, Group Benefits, and Pension.

Each specialty track contains nation-specific (Canada/U.S.) courses, and candidates must complete the required courses with a single national emphasis. Other required courses within a track are common to both Canadian and U.S. candidates. The remaining credits needed for Fellowship can be obtained by completing elective courses within the same track, or by completing courses from the other specialty tracks. This choice allows candidates to broaden their basic education.

The core courses introduce the three major fields of actuarial practice covered by the SOA education system. Designed to provide the foundation upon which each specialty track is built, the courses cover the topics of which all FSAs should have a basic understanding and knowledge. The courses are Course 200 – Introduction to Financial Security Programs; Course 210 – Introduction to Actuarial Practice; and Course 220 – Introduction to Asset Management and Corporate Finance. Course 200 covers the design, regulation and taxation of the major financial security programs in Canada and the United States, including private sector products and public sector programs. This course also introduces the design of retirement plans.

Course 210 covers valuation, costing and pricing techniques and methodologies for private sector financial security programs. An important part of this course covers in detail the major actuarial cost methods used to determine liabilities and normal costs for defined-benefit pension plans. Course 220 covers investments used to fund financial security programs; traditional techniques of financial analysis used in selecting and managing investment portfolios; and corporate finance. These three courses provide pension actuaries with a broad knowledge upon which the intricacies of pension plan design, regulation and funding can be based.

The Pension Track is subdivided into Canadian and U.S. courses. Because only three courses are not nation-specific (one required and two elective courses), these are essentially two separate tracks.

The U.S. Pension Track accommodates the Enrolled Actuary examinations by giving credit for EA-1, Segment B (as Course P-360U, Principles of Pension Valuation I-U.S.) and for EA-2 (as Course P-365U, Regulatory Requirements for Pension Plans-U.S.). There are three additional courses required of candidates choosing the U.S. Pension Track. Course P-362U, Design of Retirement Programs-U.S., which builds on the introductory design material contained in Course 200, covers design of defined-contribution, defined-benefit and hybrid-pension plans and the impact of current legislation and regulation on design issues.

The two remaining required courses are P-363, Pension Funding Vehicles, and P-461U, Principles of Pension Valuation II, and Accounting Standards for Pension Plans-U.S. Course P-363 is common to both Canadian and U.S. candidates. The course provides an overview of options available to plan sponsors to fund their retirement programs. Study material includes discussions on the selection and evaluation of investment managers, measurement of investment performance, insurance company products and the implications of plan design on investment management. Course P-461U builds on EA-1, Segment B, by including discussions on asset valuation, selection of actuarial assumptions, advanced funding methods and pension cost and liability projection methods. Much of this course is devoted to pension accounting, including an in-depth presentation of FASB Statements 87 and 88.

The required courses for the Canadian Pension Track parallel those of the U.S. Track.

Course P-361C covers plan design, building on the material in Course 200. Ontario's recent initiatives are thoroughly covered in various readings. The readings also include recent articles from pension publications and some consulting firms on current topics affecting plan design. There also is a comprehensive treatment of Canadian profit-sharing plans and an introduction to executive compensation.

Course P-364C, Regulatory Requirements for Retirement Plans-Canada, is the Canadian counterpart of EA-2. Because Ontario is used as the model for plan regulation, the course of reading includes the Ontario Pension Benefits Act, 1987, and its accompanying regulations. Taxation regulations are presently included two ways, the existing rules detailed in Information Circulars, and the proposed rules outlined in the Department of Finance, Canada Explanatory Notes to Proposed Legislation Relating to Saving for Retirement. If/when the proposed legislation or some variation of it is enacted, the course will be changed accordingly.

The required course P-363 was described in the earlier section on the U.S. Pension Track. Course P-460C, Principles of Pension Valuation and Accounting Standards for Pension Plans-Canada is essentially the equivalent of combining EA-1, Segment B, and Course P-461U to cover Canadian aspects of valuation and accounting. The course thoroughly covers the CICA guidelines for determining pension costs and obligations. Also, Canadian professional standards of practice are covered through relevant CIA Recommendations in the readings.

FES has enabled the E&E Committee to enhance the basic educational material by including elective courses in specific advanced topics. The Pension Track offers five elective courses. As pension practice evolves, new courses can readily be added in this environment, and appropriate changes can be made to existing courses more easily than in the past.

Two nation-specific elective courses provide an extensive treatment of social insurance programs in

Continued on page 11 column 1

FES cont'd

Canada and in the U.S. Course P-561C, Social Insurance in Canada, comprehensively covers the major Canadian social insurance programs. Course P-562U, The OASDI and Medicare Programs in the U.S., thoroughly describes these programs with emphasis on OASDI. Course P-363U, Executive Compensation, discusses various deferred compensation schemes. It includes readings on available funding/security vehicles. To date there is no comparable Canadian course.

Course P-560, International Pension Issues, provides an overview of how retirement programs work outside North America. Readings cover the design, financing, taxation and accounting for retirement programs in such key overseas countries as the United Kingdom, West Germany, France, Japan, Brazil and Mexico. These countries were chosen because North American clients of pension practitioners are likely to have subsidiaries or affiliates there. Course P-564, The Actuary as Expert Witness, introduces a growing area of actuarial practice involving an increasing number of pension consulting actuaries.

As part of the FES system, the E&E Committee created new volunteer positions called Course Content Officers. Each specialty track has an Education General Officer responsible for the Course Content Committee for that Track. The Pension Track has two such individuals, one for Canadian courses and one for U.S. courses, who are active as pension consulting actuaries. The Course Content Officers are responsible for the development and ongoing maintenance of the courses of reading. Of the 14 Pension Course Content Officers, 12 are pension consultants, one is the Deputy Chief Actuary of the Social Security Administration, and one is Vice President, Pension Investment Division, for a large insurance company. Each Course Content Officer is responsible for a particular course in his or her area of expertise.

With this structure in place, we are confident that the syllabus can be kept current and that new courses can be developed as the pension practice evolves.

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Thoughts of a morbid *gaijin*

by Charles Barry H. Watson

Let me make one thing clear at the start. By "morbid," I mean physically sick, and hence obsessed with health (not death). And for the record: a *gaijin* is a non-Japanese (myself) in the Land of the Rising Sun.

Some years ago, I became ill while on a business trip to Japan and spent a month in the intensive care unit of a Tokyo hospital. Now illness is no pleasure anywhere, and certainly not a healthy state to be in. And medicine is medicine, at least at the top of the line, whether in Tokyo or Helsinki. Nonetheless, the conditions and forms of medical care vary tremendously depending on the society, and these can affect dramatically the hospital experience.

So it was with me in Japan. Although the general form of treatment was what I would have expected in this country, there were enough differences to create a vastly different environment which, to my mind, had much to recommend it. At least, I was a far happier patient there than I have been here, and I suspect this carried over into the healing process.

What follows is a nonorganized listing of what I saw as the major differences between the Japanese and American hospital worlds.

- To begin with a negative, language was a problem. My attending doctor spoke excellent English and appeared to understand it equally as well, but this was not true of all the doctors and certainly not of the nurses. They wanted to practice English and carried a well-thumbed dictionary of medical terms, which I ended up using as well, but to little avail. Fortunately, I had two bilingual associates who visited me every day and smoothed the ruffled feathers. I recommend at least one such associate to everyone as the essential item to take along to a Japanese hospital.

- The language problem was one reason why I ended up staying in a private intensive care room for much longer than I needed. That got the *gaijin* out of their hair.

- Speaking of doctors, mine was superb. Young (late 20s), head of his department, vitally interested in my case. (He told me later that he had only by chance been at the hospital when I came into the emergency room, and he had asked to take me on as he had never before treated anyone with my form of illness. Nice to hear this, afterwards.)

- Despite his virtues, he initially suffered from a common flaw. He, like everyone else in the hospital, would not discuss with the patient (me) what was being done or why, and I, like the typical American, wanted to know everything. We argued. He, to his credit, eventually gave in and told me at least enough to make a coherent story.

I was told later by my associates that Japanese patients are "very tender" and do not want to know anything about their illness. Their doctors oblige. This was exemplified by a recent court case in Japan, where surprisingly a doctor was sued for refusing to reveal the fatal nature of a patient's illness. The doctor defended himself on the grounds of medical propriety and, not surprisingly, won!

- Passing on to pluses, the hospital was extremely high tech. Test results were passed from place to place by a form of robot, and the clinical thermometer was a thing of wonder. Some of the tech was perhaps a bit too high; a miniaturized camera was thrust down my throat and clicked away for some time. ("Just a deep down smile, please.") Disconcerting, to say the least. Fortunately, though, it was not a CAT scan; they couldn't have got even a kitten down there.

- The big plus was the food. All fresh, and new and different to my eyes. (Remember, I couldn't read the menu.) This was a remarkable change from the low-tech cardboard, "nuke and puke" warmed-over meals we get in hospitals here. I actually looked forward to meals and not just because of boredom.

- The Japanese aim to keep hospital costs down, with the result that they concentrate on what they see as the key elements of hospital care.
  - Bedwear (robes, gowns, etc.) is provided by the patient and not the hospital – either from home or purchased (at a reasonable cost) in a hospital store. (Saves money for the hospital.)
  - Since the hospital does not own the gowns, it does not wash them (at least

Continued on page 12 column 1