



SOCIETY OF ACTUARIES

Article from:

The Actuary

January 1990 – Volume 24, No. 1



The Newsletter of the Society of Actuaries

VOL. 24, NO. 1
JANUARY 1990

THE Actuary

Janus the actuary, looking backward and forward

by James C. Hickman

The party is over. The lights have been turned out. The ballroom has been swept, and the Canadian Brass will now be heard only on compact discs. There will not be another such celebration until 2089. What did we learn from this opportunity to review our professional past?

In the first century of the organized actuarial profession in North America, we went from Benjamin Harrison and Sir John A. Macdonald to George Bush and Brian Mulroney as chiefs of government and from Dr. Hollerith's first 80-column punch cards to supercomputers. What will the next century bring?

There are probably as many answers to the first question as there are actuaries who have read Jack Moorhead's chronicle of our history, *Our Yesterdays*, and the answer to the second question can be seen only as through a glass darkly. Yet there is an urge, almost an imperative, to attempt both summarization and prophecy as a final Centennial act. The outline for the project comes from the observation that the actuarial profession has been part of the great movements that have shaped the societies and economies of Canada and the United States. We can summarize our history and, perhaps, peek into the murky future by identifying these movements and their relationship to the actuarial profession.

For example, the final decades of the 19th century and the first decade of the 20th century were years of rapid industrialization. A cost of the

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An actuary goes to Parliament

(Ed. note: The Actuary recently interviewed W. Paul McCrossan, who served three terms as an elected member of Parliament in Canada. His experience may be helpful to all of us in both initiating and supporting an actuarial input to the development, design, costing and maintenance of social programs.)

Q.: How did you come to enter politics?

McCrossan: Believe it or not, because of my service on the Society's Education and Examination Committee. In 1973, I became chairperson of the new Part 9 committee, which examined design of social programs as well as taxation. After reviewing the study material, I concluded that Canadian social programs were not well designed. I wrote to the Leader of the Opposition offering help in preparing policy responses in the social program area. Within weeks, the national director of the party called me both to discuss my ideas and to encourage me to become involved in my local constituency association.

Within three years, two events propelled me into active politics. First,



W. Paul McCrossan

in response to public criticism about the cost of public service pensions, the government of the day (Liberal) published a "Basic Facts" paper. This paper was so misleading that it prompted the Canadian Institute of Actuaries to issue its first public statement, which condemned the "facts" presented by the government. As a result, I was asked to prepare a "politically safe" but sound position for the official opposition to take. Several

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The Actuary is published monthly (except July and August) by the SOCIETY OF ACTUARIES, 475 North Martingale Road, Suite 800, Schaumburg, IL 60173-2226.

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Non-member subscriptions:

students, \$5.50; others, \$6.50. Send subscriptions to Society of Actuaries, P.O. Box 95668, Chicago, IL 60694.

The Society is not responsible for statements made or opinions expressed herein. All contributions are subject to editing. Submissions must be signed.

Parliament cont'd

weeks later, I was amazed to hear my suggestions outlined as Conservative party policy on national television.

In 1977 the Conservative party was trailing the government by about 10% in the polls, and the Liberals were about to nominate one of Toronto's best-liked, best-known, best-respected politicians as their candidate in my riding. Shortly after Labour Day 1977, I threw my hat in the ring. Over the next six months, I recruited about 1,400 volunteers, using the tried-and-true Granum system of life insurance prospecting, and won the nomination. The election campaign officially commenced Labour Day weekend of 1978, and it was my good fortune, if not the country's, that Canada entered into a severe currency crisis in which our dollar dropped by about 7 cents against the U.S. dollar over the seven-week election period. The polls shifted and I won 65% of the vote! In Canada, as I was to find out, the political tides run high.

Q.: Was your actuarial background of any use in Parliament?

McCossan: Right from day one. Between the day I was elected and the day I was sworn in, the government introduced legislation to reform the Unemployment Insurance Act as well as the Public Service Superannuation Act. Both issues posed considerable dangers to my party which, representing the right wing, was prone to make rather extreme statements about "coddled civil servants" or unemployment insurance "cheats." I was asked to join the committees studying these bills immediately, both to develop constructive positions for the party and to keep us out of trouble prior to the next general election.

Q.: So you were able to use your actuarial training in Parliament?

McCossan: Oh yes, constantly. After the 1979 general election, which we won with a minority government, I was asked to review our national unemployment insurance system as well as public service pensions.

Q.: What about substituting "facts for impressions?"

McCossan: Over 80% of Canadians believed that unemployment insurance was being ripped off. The public perception was that the biggest rip-offs were taking place in the high unemployment areas in the Maritime provinces or by low-income earners who used UI as an alternative to

welfare. These stereotypical reasons just didn't make sense to me, so I asked for a Statistics Canada survey of UI claimants in 50,000 households to try and pinpoint if, and where, "moral hazard" (abuse) was taking place. The results indicated that abuses were in areas almost opposite to where they were perceived.

We concluded that almost 15% of the unemployment insurance claims cost in Canada was the result of moral hazard and that the abuse was concentrated in the most prosperous areas of the country and among families with well-above-average incomes. This led directly to proposals for benefit design changes and also changes in the experience rating method for premium calculation.

Similarly, with the public service pension plans, the government's chief actuary was asked to do a complete actuarial valuation including the indexing of benefits. This indicated that the combined employee and employer contributions for the benefits were inadequate and that, in the five years since fully indexed cost-of-living benefits were introduced in 1973, cumulative deficiencies of nearly \$10 billion had developed in the plans.

Q.: But you were defeated in 1980?

McCossan: That's right. The tide comes in, and the tide goes out. We felt that a budget deficit of nearly \$11 billion was excessive and brought in a budget with both lower spending and higher taxes. The government was defeated, and I was personally defeated.

Q.: You were out of politics for four years?

McCossan: Yes, but not out of public policy formation. During those four years, I served as Councillor and later as Vice President of the Canadian Institute of Actuaries. As a result of my experiences in Parliament, I felt that actuaries had to become much more involved in public policy issues – not from a partisan point of view, but to bring nonpartisan analysis to Parliament. During those years, the CIA established the tradition of presenting thoughtful, well-researched briefs to both Parliament and provincial legislatures on proposed changes in social programs and taxation.

Q.: Do you think this has helped the profession?

McCossan: Yes. Ten years ago, politi-

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Parliament cont'd

cians rarely knew what an actuary was. Now, the Canadian Institute of Actuaries is recognized as one of the best expert Parliamentary witnesses. Politicians of all parties want to hear the CIA because it has firmly established that it does not represent an employer's point of view. Rather, our briefs have tried to dispassionately outline the practical implications of possible legislation. By contrast, many other professional organizations tend to be perceived as representing their own or their employers' interests rather than giving a broad public policy overview.

This year, for example, the Minister of State for Finance, responsible for financial institution legislation, consulted the CIA about proposed solvency and financial regulatory legislation. He appears on the verge of granting increased responsibilities to the valuation actuary in Canada. Similarly, there are now regular meetings between the CIA and the Superintendent of Financial Institutions. Ten years ago, the CIA's advice would not have been sought (or offered).

Q.: *After you were reelected in 1984, did you continue to work on "actuarial issues?"*

McCrossan: Yes. Within two months after Parliament was recalled, the Health and Welfare committee started studying senior citizens and family benefits. I was able to forge a virtually unanimous all-party consensus recommending changes in the levels of old-age security and pensioner tax deductions, as well as family allowances, the child tax credit, and children's tax exemptions. Almost all of our recommendations are now in place. Tax exemptions have almost universally been replaced by tax credits, so that the value is the same regardless of marginal tax rates. Similarly, we recommended that combined benefits from program expenditures (benefits) and tax expenditures (deductions and credits) be reduced sharply at higher incomes. Accordingly, in the last budget, old-age security payments and family allowance payments were made subject to a "claw back" over \$10,000 income.

In 1985, I was asked by Finance Minister Wilson to work on the budget changes concerned with private pension systems. We mandated vesting and locking-in after two years,

introduced mandatory last-survivor pensions, prohibited pensions that ceased on remarriage and reinstated those government pensions that had ceased on remarriage. In addition, we provided for pension credits splitting on marriage breakup, provided incentives for employers to introduce indexing into private pension plans, introduced employee and retired life representation on pension committees, tightened up pension tax abuses, and increased permissible tax-sheltered retirement contributions.

In 1986 and 1987, I authored over a third of the Finance Committee's recommendations for reregulating the powers of financial intermediaries. This regulation increased the powers of regulators to control non-arm's length transactions, limited corporate concentration of ownership of financial institutions, recognized the solvency risks posed by asset-liability mismatching, and increased roles for valuation actuaries in both life and P&C companies. In addition, banks "voluntarily" reduced credit card interest rates following an analysis I conducted for the Finance Committee into pricing of credit card services.

Following our investigation of bank service charges, I introduced the Fair Banking Practices Act, which the House designated as a priority bill. Within two months, the banks "voluntarily" agreed to complete disclosure of bank service charges, the elimination of "unjust" service charges, and the establishment of nation-wide customer complaints handling procedures, and I was able to withdraw the bill.

Q.: *That wasn't your first Private Member's success, was it?*

McCrossan: No. Under the parliamentary system, almost all bills that pass are government bills, and those Private Member's bills that do pass are largely symbolic, such as the 1974 Act to designate the beaver as Canada's national animal. In 1986, the House of Commons unanimously approved my Public Pensions Reporting Act, the first Private Member's bill approved since 1974, and the first substantive Private Member's legislation passed since the Second World War. This bill might be thought of as an actuarial "freedom of information" bill. It requires the government to table triennially in the House complete actuarial valuations of virtually all its outstanding obligations, whether from social programs

or for pension benefits for public servants, the armed forces, MPs, judges, and the RCMP.

Similarly, in 1988, as chairperson of the government Health and Welfare Committee, I was able to steer through an opposition Member's "NonSmokers Rights Act" on a "free vote," establishing a smoke-free federal workplace and smoke-free domestic plane travel.

Q.: *Now that you are out of politics again, do you see going back?*

McCrossan: No. When I entered politics, I wanted to serve for 10 years. It turned out to be just over 10 years from the time I was first elected to the last election. During those 10 years, I had the opportunities of a lifetime to help redesign the national system of pension benefits, family benefits, unemployment insurance, as well as financial reregulation. But the disruptions in family life and the job stresses are such that I had advised my constituency association executive early in 1988 that I intended to leave politics after the Canada/U.S. Free Trade Agreement was enacted.

I would, however, like to continue to be involved in expanding the role that actuaries, as a profession, play in contributing to legislators' understanding of the issues involved in social programs, taxation, and financial institution reregulation. We've come a long way in Canada since the CIA's first public pronouncement following the "Basic Facts" paper. Legislators now value our input on complex public policy issues. Over the next five years, almost all our financial institution legislation, as well as our social and tax legislation will be overhauled in Canada. I would like to try to ensure that actuaries, through the CIA, continue to be centrally involved in the decision-making process.

W. Paul McCrossan is Partner and Consulting Actuary, Eckler Partners Ltd.

50 years of Fellowship

Sometime during 1990, six actuaries will celebrate their 50th year as Fellows. FSAs who attained Fellowship in 1940 are:

William J. Cohagan
Samuel Eckler
Milton J. Goldberg
Robert J. Myers
Carman A. Naylor
William F. Ward