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Editorial

It's what we do with what we got that counts

by Barbara J. Lautzenheiser

I still remember the tense afternoon when one of my former employers looked sternly at me and said, "Actuaries are never right." I had no quick rebuttal, because he was right. The probability of an actuary being precisely right is very small. My response then makes a point that remains important (and right) today. I said, "Yes, but our estimates are better than no numbers at all."

"No numbers at all" is what our actuarial organizations sometimes present as solutions to society's problems. What group of people has more expertise, more data, and more ability to influence the nation's financial security than our profession? We may not be able to predict exact results, but we can identify and project trends, and from those trends, identify possible solutions to society's needs.

Back to the basics

Ever since life insurance was begun by the churches to provide for the "poor widows," its main purpose has been to fulfill the need for financial security. The preface to the *Life and Health Insurance Handbook* states, "The treatment of human life value risks is the principal responsibility of the life and health insurance business of the United States and Canada."

Only within the past 20 years has our emphasis shifted from fulfilling these basic needs to "numbers" such as rates of return at surrender for the policyholder or at reporting periods for the companies. The demographic statistics clearly indicate that it is time we return to paying attention to the people and their problems.

Identifying changing needs

Many needs already have changed. For many, such as upper-income, dual-income families, the financial risks of death are no longer as critical as the financial risks of living. For others, such as new single-income heads of households, the financial risk of death is more severe. With "life after 65"

extending beyond one-third or two-fifths of a person's working lifetime, death benefits for this age group can be as necessary as retirement benefits. New dependence between parent and child and even between grandparent and grandchild create new intergenerational needs.

We also must pay attention to changing needs in health insurance. Deductibles remain constant while the consumer price index, let alone the medical CPI, is more than triple what it was just 20 years ago. Today's key needs are affordability, a major function of such deductibles, and availability. Identifying how to provide health insurance for all, rather than merely how to sell it to more people, has become the industry's and society's principal need.

Planning for tomorrow's needs

Tomorrow's needs will be even more dramatic. Actuaries can project trends with more certainty than many others. We can see the shift in future needs, the extent of future needs, and most importantly, the advance funding necessary for these needs. That funding must begin now.

Long-term care is not merely a "nursing home problem," now or in the future. It is a decreased mobility and ability problem. It is a steadily increasing need for more income to be provided to nearly everyone. That's a pension problem for funding and a health problem for payout.

Payout will become as critical a concern for future financial needs as paying in was in the past and continues to be in the present. At least 30% of the population in the year 2000 will have no children on whom to depend for financial or physical support. That fact, coupled with the increasing needs of our graying population, make new annuity payout designs a critical marketing thrust for what will become a must.

Demographic trends not only frame the design of these needs but also frame the demand for solutions.

Basic social programs and private programs must fulfill society's needs. Trends such as the baby bust following the baby boom dramatically affect Social Security programs, as well as the entire general revenue funding. What happens when general revenue from those of "working age" is inadequate and "retirement income" from the baby boomers in this country becomes the only general revenue source? Retirement values will be subject to longer life expectancy, the CPI, greater needs for decreased mobility, and higher income tax rates. When HIV has had a 20-year impact on our teenagers, what other problems will aggravate the numbers of "funders" in the baby bust population?

Effecting solutions

We can all borrow from the wisdom of others:

One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared.

Merlin Olsen
NFL Tackle, Sports
Broadcaster/Actor

It's what you learn after you know it all that counts.

John Wooden
College Basketball Coach

Some men see things as they are and say "Why?" I dream things that never were, and say, "Why not?"

George Bernard Shaw

The greatest thing in this world is not so much where we are, but in what direction we are moving.

Oliver Wendell Holmes

The difference between the impossible and the possible lies in a man's determination.

Tommy Lasorda
Major League Manager

We can affect and effect these solutions if we choose to. We have in the past. As of 1989, 86.1% of the U.S. population had health care coverage. Of the 13.9% who did not, nearly one-third were at poverty levels, that is, at levels where we need to work for social solutions to solve the problem. The last survey done (1984) showed 70% of all adults had some form of life insurance. In 1985, 70% of civilian workers earning \$15,000 or more had pension plan coverage.

We could and should do more

now, but our real opportunities are for the future. What can we do, and what should we do? We need innovative products — products that emphasize society's needs, not numbers, and that emphasize retention for contingencies, not surrender for "return." We should encourage products that promote persistency, not profits, to the policyholder.

Statutes must be revised to encourage and facilitate such innovation. Federal or state statutes that restrict policy design or require standardization of contract should be actively discouraged and eliminated. Federal and state specialized statutes by line that inhibit single funding for multiple contingencies should be revised to encourage broader coverage at lower costs.

Tax policy also should be encouraged to reward those who voluntarily provide for their own financial security.

The "society" I've referred to is that of the United States. Similar and even more severe problems occur in other countries. In 1990, the percentage of the U.S. population over age 65 was 13.5%. Ten other countries have a higher percentage, ranging from France's at 13.8% to Sweden's at 18.3%. Not one of these 10 countries has a gross domestic product (when converted to dollars) even one-fourth the size of the United States', and half of them have a GDP less than 4% of the United States'. In spite of a slowdown in economic growth in the 1980s compared to the previous 15 years (except for the United States and parts of Asia), the trend toward greater economic interdependence has continued. Thus, their problems affect problems in the United States. Their solutions affect our solutions. If such interdependency still seems illusive, consider that nearly one-fourth of the Society of Actuaries' members works in a country outside the United States. The Society and society as a whole clearly need to be viewed from a global perspective.

Nothing worth something comes easy, and neither do these solutions. As my favorite mentor, Jiminy Cricket, says, "It's what you do with what you got that counts." It's what the actuarial profession does with our unique expertise that counts. If we are creative, caring, and committed, not only will society benefit, but so will the Society of Actuaries.

Constitutional amendment does not pass

The constitutional amendment that would have allowed Associates of 10 or more years expanded rights and privileges, including the right to nominate and vote for Board members and officers and to propose and vote on constitutional amendments, did not pass. Of the ballots sent to 6,854 Fellows, 3,754 (55%) responded. Of those responding, 59% voted against the amendment, and 41% voted in favor of the amendment. An amendment to the constitution requires approval by two-thirds of the Fellows voting.

Actuarial standards handbook now available to non-AAA members

All North American organizations representing actuaries have adopted a common Code of Professional Conduct. All U.S. actuaries now are bound by the standards of practice and compliance guidelines promulgated by the Actuarial Standards Board (ASB) and by the Qualification Standards for Public Statements of Actuarial Opinion promulgated by the American Academy of Actuaries (AAA).

A two-volume handbook now is available that contains the standards, with a preface describing how these standards are developed and are intended to operate, the ASB procedures manual, and the Code of Professional Conduct.

AAA members already have the handbook, but non-AAA members can buy it by sending \$60 to Actuarial Standards Handbook, 1720 I Street, NW, 7th Floor, Washington, DC 20006.

Mail alert

The *Index to 1989-91 Publications of the Society of Actuaries* was mailed to members in June. If you have not received your copy, please call Donna Klehr at the Society office, 708-706-3526. Note that a new accumulation will begin with 1992 publications, so this volume is a permanent resource.