SOCIETY OF ACTUARIES

Article from:

The Actuary

September 1992 – Volume 26, No. 7

Task force recommends strengthening ASA requirements

by Daniel J. McCarthy

In June 1991 the Society of Actuaries' Board of Governors appointed the Task Force on Educational Requirements for ASA and Related Issues to consider whether the Society's Associateship requirements were appropriate and if not, to recommend what would be a more appropriate level. I chair the task force, and other members are Harry Allan, Sam Gutterman, Steve Kellison, Karen Krist, Mike McGuinness, and Bruce Schobel. In addition, Mike Toothman, president of the Casualty Actuarial Society (CAS), participated as the CAS liaison on this task force.

The task force considered some broad questions related to classes of membership in the Society and concluded that:

- It is desirable to have an Associate designation, as well as a Fellow designation. (Other possibilities, such as the elimination of Associateship — with or without the introduction of a formal "student" category — were rejected.)
- It is important not to make changes that would make U.S. students who intend to become Enrolled Actuaries (EA) less likely to seek ASA status than is the case today.
- All things being equal, it is desirable to change the ASA requirements so that they go beyond the mathematical portions of the syllabus. (This is consistent with a similar conclusion reached by the Casualty Actuarial Society in the 1970s.)

Specific task force recommendations

The task force made two principal recommendations in its report to the Board at the June 1992 meeting. Board members offered several suggestions. The task force recommendations, including the Board suggestions, will be considered over the next several months by various groups, including the Education Policy Committee and the Administration and Finance Committee. These recommendations and the principal comments of Board members are:

- The examination requirements for ASA should be strengthened from 200 to 300 credits. The task force, thinking of the different needs of EA and non-EA, proposed that the additional 100 credits could come from any examinations in the Fellowship syllabus. Board members, aware of the EA concern but wanting to stress the importance of the Fellowship core, proposed that the 100 credits should come from the Fellowship core examinations, except that candidates could substitute examinations EA-1B and EA-2 for one of the core examinations if they wished.
- Requirements should move from the current level to the proposed level during a transition period. The task force proposed two years. Some Board members, aware of past transitions in examination rules, suggested a longer period.

In addition, the task force suggested that the Education Policy Committee consider whether candidates could, if they wished, take only 155 credits in the "100 series" (the required "100" courses total 155 credits) and make up the difference from other courses in higher series. (Candidates could, of course, continue to take up to 200 credits of "100 series" courses.) Board members suggested other possibilities along the same line. The task force, however, does not consider this subject integral to its recommendations.

Other factors

As part of its study of the Associateship level issue, the task force investigated the time candidates required to become ASAs. It studied data on those who attained ASA designations in 1991 and found that:

- Thirty percent of students attain ASA within 18 months of leaving school. Another 40% require 60 months or more to reach this level.
- Sixty-one percent of Canadian ASAs reach that point within 18 months of leaving school, compared to 15% of the U.S. ASAs.
- Those who have attained ASA proceed toward FSA at a rate largely independent of nationality or EA status. (In the United States, EAs actually progress slightly faster toward FSA than non-EAs.)

It found that many individuals who became ASAs quickly, showing mathematical/numerical competence, often did not progress beyond that point, failing to demonstrate competence on more verbal material. The task force believed that this indicates the limited achievement represented by the ASA designation. It also believed that, while the Associate level now signifies "an understanding of basic mathematics underlying actuarial science and its application of fundamental mathematical concepts to technical actuarial problems" (as stated on page 124 in the 1992 *Yearbook*), awarding Associateship on the basis of this accomplishment suggests a narrow technical concept of what an actuary is. A more desirable level for the Associateship designation would be one in which the Associate also has developed some knowledge of the business environment within which actuaries practice.

The task force observed that, in the past, a new ASA typically had received a fair amount of informal education on the job, in addition to the formal education shown by passing the examinations. Today, more than one-half of new ASAs pass at least one examination while still in school, and nearly one-half achieve ASA within 30 months of leaving school. Thus, the presumption of informal education is not as valid as was once the case.

Finally, the task force believes that extending a professional designation based on mathematical competence alone is not consistent with modern concepts of what a professional actuary is, as conveyed by, among other things, the report of the Task Force on the Actuary of the Future. It therefore concluded that the level of Associateship should be raised to better meet the overall objective of conveying a certain professional standing to the public.

Call for membership input

The Society's Board had a generally favorable reaction to the report, but it is not ready to take a firm position now. The Board asked the task force to refine its recommendations and asked the

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Under any reasonable set of assumptions, there will be a very large gap between projected income and outgo. Therefore, either the benefit promises or the taxation promises will have to be broken. It seems clear that both promises will be broken, since it will be virtually impossible to increase taxes enough to fulfill the benefit promises being made to the baby boomers.

Reasons for high cost

There are several well-publicized reasons for the high projected cost of Social Security:

- The baby boom followed by a baby bust
- Longer life expectancies
- Extraordinary increases in medical care costs
- The assumption of a continued pattern of retirement between ages 60 and 65

In 1930, the remaining life expectancy for a 65-year-old male was 11.8 years; for a female, 12.9 years. In 2030, the remaining life expectancy at age 65 is projected to be 16.8 years for a male and 20.8 years for a female.

In 1950, there were 16 Social Security taxpayers for every benefit recipient. Today the ratio is about 3.2 to 1, and in 2030 it will probably be less than 2 to 1, if present retirement patterns continue. All these factors have obvious implications for a pay-as-you-go Social Security system.

Fallacious trust funds

The government would have us believe that Social Security is accumulating huge trust funds that will be used in the 21st century to help finance the high cost of retirement benefits that will become payable. This simply is not true. The present trust funds, and probably the future trust funds, are mere window dressing and have no economic reality.

The government collects more Social Security taxes than are needed to pay current benefits. It spends the "excess" taxes on other government programs, and it issues an IOU (Treasury Bond) to the Social Security trust funds. This simply means that the government intends to collect general revenue in the future to redeem the bonds, plus interest thereon, when Social Security needs the money to pay benefits.

In other words, part of our Social Security taxes will be used to pay for other government programs during the trust fund "buildup." An equivalent amount of general revenue (enhanced by interest) will be used to pay Social Security benefits during the trust fund "liquidation" period.

It takes a fantastic imagination to believe that this process will strengthen the security of future benefits or that it will reduce the future tax burden (taking into account both general revenue and payroll taxes).

Ignore Medicare?

Some analysts who want to give a false sense of security about the future of Social Security try to ignore Medicare, an important component of Social Security's rising future cost. In 1989, the average cash annuity paid to a retired worker and spouse was $922 per month. The average monthly value of the "medical care annuity" provided such a couple was $304 for Hospital Insurance benefits and $200 for Supplementary Medical Insurance benefits. Thus, the value of the Medicare portion of Social Security was 55% of the value of the cash annuity portion.

It is misleading to state that Social Security is financially sound well into the future and thus imply that Social Security's currently scheduled taxes will be adequate in the future. This clearly is not true, since an important component of Social Security taxes is used to finance the Hospital Insurance part of Medicare.

In assessing the adequacy and the financial viability of retirement benefits provided by Social Security to the baby boom generation, we should consider the medical care annuity as well as the cash annuity. Even if Medicare is separated someday from what we now call Social Security, the question of its viability will remain.

Prescription for an uncertain future

Any reasonable analysis would indicate that Social Security has an uncertain future. It follows that the baby boom generation has an uncertain retirement future — not necessarily a bad future, just an uncertain one.

One thing seems certain, however. On average, the baby boomers will retire in their early 70s, not their early 60s. Although an increase in retirement age will help reduce the future cost of Social Security, this is only a by-product of the primary purpose of establishing an appropriately sized work force to produce all the goods and services required by the population. We can have improved education, a cleaner environment, improved and more widely available health care, a better maintained infrastructure of roads and bridges, and a generally improved material standard of living, but only if enough people are working to produce these things.

In other words, the formula for survival — now and in retirement — is the same as it has always been: work and save.

You should be saving personally and through employer-provided benefit plans, not only to supplement the Social Security benefits currently being promised, but also to make up for the shortfall that almost certainly will occur in such promised benefits.

You should do your utmost to find income-producing endeavors that you enjoy and can do well, because you will probably be doing them a lot longer than you think you will. Besides, wouldn't it be a sad commentary on our life and culture if we spent the majority of our healthy, active lives just looking forward to retirement?

A. Haeworth Robertson, former Social Security chief actuary, is president of the Retirement Policy Institute and author of the 1992 book, *Social Security: What Every Taxpayer Should Know.*

The October issue of *The Actuary* will include a book review by Robert J. Myers of A. Haeworth Robertson's book, *Social Security: What Every Taxpayer Should Know.*

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Education Policy Committee and the Administration and Finance Committee for their comments. The report will be discussed by the Executive Committee at its September meeting and by the Board at its October meeting. As always, the Board is very interested in membership input on this important issue. Letters may be sent to *The Actuary* or to the Board in care of the Society of Actuaries office in Schaumburg.

Daniel J. McCarthy is consulting actuary with Milliman & Robertson, Inc.