



SOCIETY OF ACTUARIES

Article from:

The Actuary

May 1993– Volume 27, No. 5



The Newsletter of the
Society of Actuaries

VOL. 27, NO. 5
MAY 1993

THE Actuary

The CAS and SOA move together on principles

by Steve Radcliffe
SOA President-Elect

The Casualty Actuarial Society (CAS) and the Society of Actuaries (SOA) have agreed to form a joint task force to achieve unity on actuarial principles. Allan Kaufman, CAS Vice-president of Research and Development, and I will spearhead this effort beginning this spring. CAS and SOA leadership are to be congratulated on their foresight in making this a priority for our profession.

Individual progress

I congratulate the CAS on the progress it has made in articulating principles. It is interesting to compare the different approaches each group has used to design its principles. By reviewing its actuarial practices, the CAS derived principles by induction. The SOA articulated general or fundamental principles with the hope that principles specific to certain practices could be derived, at least in a general way, from the fundamental principles.

Both groups have made important advancements for our science in the discovery, development, and articulation of principles. Tremendous potential for synergy exists from getting the two groups together. As previously noted, the SOA has concentrated on general or fundamental principles, while the CAS has made large strides in principles that are specific to the practice of casualty actuarial science. Each group can learn much from the other.

continued on page 11 column 1

Pensions in Canada by 2031

by J. Bruce MacDonald

Retirement income is often compared to a three-legged stool, with the legs being social security, private pensions, and savings. It is interesting, yet disturbing, to see what the situation may be in 40 years.

Social security

Three basic elements make up the Canadian social security system:

- Canada or Quebec Pension Plan (CPP, QPP, or C/QPP)
- Old Age Security Pension (OAS)
- Guaranteed Income Supplement (GIS)

The C/QPP provides a pension of 25% of career average earnings, adjusted for increases in national average earnings. Maximum benefits are payable if the member has worked for 85% of the contributory period from age 18 to retirement. The pension is fully indexed with the cost of living. Retirement is normally at age 65 but can be as early as age 60 subject to a reduction.



In 1993 both members and their employers contribute 2.5% of covered earnings, which are about the average earnings of Canadians. (Those who are self-employed contribute twice these amounts.) The Thirteenth Actuarial

continued on page 8 column 1

In this issue:

The CAS and SOA move together on principles Steve Radcliffe _____	1	Actuaries in leadership positions Angelica Michail _____	6
Pensions in Canada J. Bruce MacDonald _____	1	Transactions authors profiled _____	9
Editorial — Professional responsibilities Mary Hardiman Adams _____	2	On the lighter side Julian Ochrymowych _____	10
Section Corner _____	3	Quebec spring meeting _____	11
Issues facing actuaries in retirement systems Judy Anderson _____	4	The complete actuary — The Life Styles Inventory Alan Finkelstein _____	12
Thanks to volunteers Bernard Bartels _____	5	A heuristic approach Jonathan Balsam _____	13
		Letters to the editor _____	15
		Actucrostic _____	16

Principles cont'd

Task force guidelines and objective
We agreed to the following guidelines for the joint task force:

- Unity on fundamental principles between the CAS and the SOA is good for the profession as a whole.
- Principles help define the actuary's work as an applied science.
- Clarity from principles is useful.

The task force's objective will be to lay a foundation to coordinate the articulation of principles in the CAS and the SOA.

First assignment

The task force's first assignment is to review the current draft of the "Principles of Actuarial Science" produced by the SOA and to suggest revisions so it will be acceptable to both groups. This document will be published as an SOA *Transactions* paper. All CAS members are invited to write discussions.

The statement of principles has undergone intense discussion among life actuaries. More than 150 comments were received and incorporated into the current document. However, the lack of input on subjects known best to casualty actuaries has been a shortcoming.

For the task force's purposes, this paper should be treated as a draft of the current state of principles in the SOA. The SOA's Board of Governors has accepted it but not officially adopted it.

Description of paper

This paper by the SOA Committee on Actuarial Principles tried to accomplish three main goals:

- To write clear, noncircular definitions of such concepts as actuarial risk and financial security systems. The actuary's work is mainly defined by working with these concepts.
- To define actuarial paradigms that are used to describe, measure, and analyze these systems.
- To write rules that could be used to decide whether actuarial models within the paradigms were valid.

The SOA believed this work was necessary to have precise definitions and assumptions before we could move on to write principles that were more specific to our practice.

Possible changes

Some changes that may be appropriate for the principles document involve

renaming the categories of principles to make them more suitable for CAS members and more understandable to SOA members.

The paper currently classifies principles as fundamental principles, methodologies, and standards. The term "methodologies" is a problem for some who have reviewed the document. A better terminology might be "general principles, specific principles, and standards."

Specific principles could be further divided into two groups: practice specific and function specific. Some differences in specific principles that apply to life and casualty actuaries may exist, but there should not be differences in the general or fundamental principles.

Contributions to improve document

The CAS already has articulated some specific principles on reserving, rate-making, and valuation. The CAS can especially contribute in the sections on credibility theory and definitions of statistical regularity. The CAS has more refined principles in these two areas and will improve the SOA document on principles. The SOA also plans to use the format of the CAS principles when it writes the specific principles for the SOA.

The SOA has found principles to be helpful in many ways:

- They codify a precise and common language for actuaries to use.
- They provide an inventory of tools available to the actuary for solving problems.
- They provide a strong foundation for standards.
- They can drive the education effort and define the material that an actuary needs to know.
- They can guide the research effort to priority areas.
- They will define precisely the identity of the actuary.
- They can create an intellectual common ground for all actuaries that will make the profession stronger.

This task force will address the last point in a search for that common ground.

On behalf of the SOA, I am looking forward to this joint effort with great anticipation and hope.

Steve Radcliffe is President-Elect of the Society of Actuaries and senior vice president and chief actuary of American United Life Insurance Company, Indianapolis, Indiana.



History, culture surround last spring meeting

Historic and culture-filled Quebec will be the site for the Society of Actuaries last spring meeting, June 14-15, where participants can choose from more than 55 sessions focusing on financial reporting and product development.

One of the meeting's highlights will be a presentation at the June 14 general session on professionalism by Major-General Lewis W. MacKenzie (retired), former commander of the United Nations peacekeeping forces in Sarajevo. General MacKenzie has served in nine peacekeeping tours in six mission areas: the Gaza Strip, Cyprus, Vietnam, Cairo, Central America, and Sarajevo.

Among the session topics are the impact of low interest rates, U.S. and Canadian actuarial standards of practice, important working relationships for valuation actuaries, cash flow testing as a management tool, and solvency issues of life insurance companies worldwide. Those interested can get updates on "fair value" financial reporting and reinsurance regulatory, tax, and product developments. Secrets on better business writing skills and tips from graders on how to write a better Fellowship exam will be shared.

During meeting breaks, attendees can take a five-minute walk from the meeting hotel, the Quebec Hilton, to the walled old city and the Citadelle. Shopping and entertainment are just minutes away at Place Quebec, a complex with 75 stores and boutiques. Don't miss the Monday night reception at Le Chateau Frontenac, an 18th-century style French castle.