



SOCIETY OF ACTUARIES

Article from:

The Actuary

December 1995 – Volume 29, No. 10

1994-95 year in review

Ethics and professionalism for the future

Ethics, who cares? Or, ethics, who knows? Cynicism and skepticism in today's society have infiltrated the business world. Yet, actuaries often find their personal convictions pitted against the bottom line. For a profession like actuarial science, that holds the financial security of many people in its hands, the development of ethics based on highest professional standards is vital. Yet, integrating ethics with practical decision-making is a challenge.

Recognizing this dilemma led Bob Berin, 1994-95 president, to adopt this topic as his theme for the year, bringing recognized leaders in the ethics field to meetings to initiate discussions with members.

As Berin mentioned during the opening session at the New Orleans meeting, "Ethics is a very interesting thing. It's very much part of our professional lives, and we don't think about it too often. But it's very important if you think of the employee working late at night in the office with his or her light on the desk, and nobody else is in the office. They come across something that upsets them, either a missed number or a missed concept. It's what they do with that piece of information from that point that very much affects them, affects the business, and can affect the output. If the organization doesn't have a tradition of caring that much, there might be a tendency to just push it aside in the rush to get the figures out. If we want to leave you with anything, it's the thought that that employee working alone is very important. It might be you someday, and you'll have to face that."

This emphasis on ethics couldn't have come at a more opportune time. It relates closely to the number one issue facing the SOA during the past year: changing the Education and Examination system to address the



About 20% of nonretired FSAs have now finished their Fellowship requirements by attending a Fellowship Admission Course (FAC), which offers discussions on professionalism and ethics. Bob Beuerlein, retiring FAC chairperson, toasts those finishing their FSA requirements at the 1995 FACs. A group from Prudential celebrate: (L-R) Sharon Brody, Amanda Hammell, Lisa Shane, and Lori Lenart.



core of who an actuary is and what an actuary's obligations of professionalism will be in the future.

Educating the future actuary

A special Board Task Force on Education issued a pivotal report to all members in August. After careful study of the core competencies that distinguish actuaries from professionals in related areas, the task force concluded that a fundamental change was needed in the SOA's education system. Mere tinkering was not enough. It would take comprehensive changes to equip actuaries with essential skills and knowledge to meet future professional challenges and to remain valuable to employers.

The task force recommended, and the Board approved, certain basic principles:

- Focus the syllabus on examination of subjects covering essential elements of an actuary's education
- Provide a business context with rigor that is consistent with that of mathematical education

- Include all kinds of contingencies, not just life contingencies
- Include models from outside the insurance and pension fields

The task force report divided actuarial education into four categories: 1) preliminary — necessary but not actuarial, 2) basic — actuarial subjects that all actuaries need to master, 3) advanced — subjects that need to be mastered in a certain field, but do not change over time and are not country specific, and 4) professional development — subjects that change rapidly and/or are country-specific.

It said the SOA should test only the basic and advanced categories. The others — preliminary subjects and professional development — should come from the best available provider.

The task force brought members into the planning process by opening dialogue through the year at meetings, in interviews, and with a survey. An October 1995 article in *The Actuary* details the changes and how concerns of the members are being addressed in the design.

The Design Team, chaired by Jeff Beckley, is now working on efforts relating to the syllabus, the ASA definition, educational providers, financial implications, and the transition plan. Because of the present CAS/SOA and CIA/SOA jointly administered exams, representatives from the Casualty Actuarial Society and the Canadian Institute of Actuaries are on the Design Team. A design packet has been sent to about 180 individuals to review, and a final design plan is expected in 1996.

In other education initiatives, the strengthened requirements for the Associateship designation from 200 to 300 credits took effect in July, resulting in a large group of new ASAs, 639, finishing requirements in May.

The new Fellowship Investment Track, developed to prepare actuaries to play a major role in investment operations, was effective November 1995. It has elements of both portfolio management and asset-liability management.

Ensuring continued relations with academics

The academic community is important to the future of actuarial science as a source of new research and of new SOA members. The initiatives to strengthen relations with academia begun in 1990 have been successful,



Three SOA Ambassadors attended the annual meeting: Mabini Juan from the Philippines, Henryk Walerys from Poland, and Michelle Chong Tai-Bell from Trinidad. Tai-Bell (left), a new International Section Council member, visits with Jeff Harper (right), chair of the Actuary of the Future Section. Ambassadors are important SOA links to members living overseas.

and the Board has reconfirmed its financial commitment to this program.

An evaluation of the Ph.D. grants program, published in the January 1995 issue of *The Actuary*, led the Board to not only renew its commitment of \$50,000 annually, but also to approve more than \$50,000 a year if the excess is fully funded from a source other than the general fund. This program provides \$10,000 grants annually, renewable up to three times, to Ph.D. students writing theses on topics relating to actuarial science. Seven grant recipients have completed their dissertations, which are on file in the SOA library. Six others are still completing their Ph.D. requirements.

The ASA/FSA grants, awarded to a college or university that has a full-time faculty member earn an Associateship or Fellowship, have been given to 40 educational institutions over the five-year history of the program, signifying 40 new ASAs and 8 new FSAs. The Board, at its May 1995 meeting, increased the grant amount from \$2,500 to \$5,000 for a new ASA and from \$5,000 to \$7,500 for a new FSA.

A new grant program sponsored by the Committee on Knowledge Extension Research funded five projects on a wide range of topics, all involving researchers who are academic SOA members.

Funding the resolution of future social problems

Just over a year ago, the SOA Foundation was incorporated. It was established with an initial contribution of \$500,000 from the SOA, with an additional matching grant of up to \$500,000.



For the first time, in 1995, actuaries from China attended an SOA annual meeting. Dr. Kailin Tuan (left), who has been involved in developing the actuarial science program at Nankai University, proudly introduces one of the first ASAs from that program, Donghai Yu, (center) to President Bob Berin (right).

The Trustees, under the leadership of Chair Jim Tilley, have identified projects and begun active fund raising to accomplish its mission, which is to contribute to the understanding and resolution of present and future social and economic problems by:

- investing in innovative research, education and communications initiatives,
- using actuarial capabilities, and
- collaborating with universities, governments, industry, professions, and others with similar missions.

The Foundation's September newsletter, *foundation update*, details these projects in process:

- *Financial Economics Theory for Actuaries* textbook, under the leadership of Harry Panjer and co-funded by Lincoln National Corporation. The ten authors will include actuarial/financial experts and academics from around the globe, complemented by practitioner contributors.
- A Social Security public education campaign, developed with the SOA Committee on Social Security—Retirement Disability Income and implemented through partnerships with targeted organizations.

(continued on page 13)

1994-1995 Year in review (continued)

In addition, the Foundation has a home page on the Internet to establish a public forum and to keep members up-to-date. The address is <http://www.hasc.ca/foundation>.

Fund raising for these projects shifted into high gear at the annual meeting. Nearly \$113,000 was donated or pledged by individuals after an appeal from SOA Resource Development Committee Chair Walt Rugland.

Current Status

Foundation's Premier Campaign Led by Ian Rolland "Preparing for Tomorrow's Possibilities: the Leadership Investment"

Campaign Goal:
\$1 million by 1998

Individual Contributions and Pledges:

From Charter Investors	\$268,600
From Special Events	40,000
From Corporate Matching Gifts	<u>14,000</u>
Total: almost 1/3 of goal	\$322,600
Matching SOA grant	<u>322,600</u>
Total pledges & contributions	\$645,200

Macrodemographic model potential for major impact on future

One of the ideas introduced this year by President Bob Berin could have a major impact on future questions related to the cost of government entitlement programs, such as welfare,

unemployment, and retirement income. He asked the SOA to explore how a central data source in the form of a macrodemographic model could be developed, starting from existing models. Every major existing database/model will be analyzed first to see if it would be practical to access them or to extend them into a new model.

The feasibility study on a macrodemographic model on retirement is now being conducted, sponsored by the Retirement Systems Practice Area, Pension Section, Computer Section, the Conference of Consulting Actuaries, and the American Society of Pension Actuaries.

Experience studies process reviewed

An Experience Studies Task Force spent much of 1995 reviewing the entire experience studies process and forming recommendations to improve these studies' timeliness and value to members. Their recommendations, approved by the Board in October, led to the creation of two oversight subcommittees under the Committee on Research Coordination — one for research projects and one for experience studies. Each is responsible for budgets, plans, and management in its respective area. Other recommendations are related to assessments to businesses that fund experience studies, a review of users of these studies, selling data in



Bob Myers (left), former SOA president and chief actuary of the Social Security Administration, steps forward at the annual meeting to become the first SOA Foundation Charter Investor at the Principal level. He hands his \$25,000 check in memory of his wife Rudy to Foundation Director of Research and Education Harry Panjer (right). Many others gave a minimum of \$1,000 at the annual meeting to become Charter Investors. Andover Research Ltd. and Ward Howell International gave the first unrestricted corporate contributions of \$10,000 each. Almost \$113,000 was contributed or pledged at the meeting.

electronic form, and assigning management responsibilities to the staff experience studies actuary.

A copy of the Experience Studies Task Force report is available from the SOA Research Department.



Attendees of the International Actuarial Association Congress in Brussels, (L-R) Bill Bugg, Robert Dymowski, Walt Rugland, and Mo Chambers, discuss the formation of the International Forum of Actuarial Associations in a Boston annual meeting session.

Health care studies important to future reform

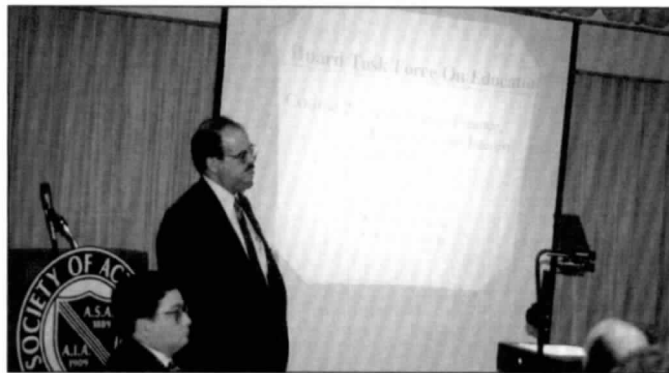
Many recent health care reform proposals include a system of risk adjustment payments among health plans to remove the financial incentives for health plans to selectively enroll only low-risk individuals. The SOA's Risk Adjustment research project recently completed is especially timely. The results illuminate the relative strengths and weaknesses of different diagnosis-based risk assessment methods. The research report concludes that no current risk assessment method can completely remove incentives for risk selecting behavior. This project was a cooperative effort involving actuaries from Coopers & Lybrand LLP and researchers from Harvard University.

The Medical Effectiveness Task Force study provided actuarial guidance to individuals or organizations producing or evaluating health plan performance measurement reports. These reports will continue to gain prominence under health care reform.

Global connections

To meet the future need for global cooperation within the profession, a new section of the International Actuarial Association (IAA) was formed in Brussels, Belgium, in September. The SOA is one of the full founding members of the International Forum of Actuarial Associations (IFAA). Forty-four actuarial organizations worldwide intend to apply for membership. Bob Collett, SOA chair of the Committee on International Relations, is the SOA's first delegate. Other U.S. actuarial organizations' representatives are Jim MacGinnitie, American Academy of Actuaries; Curtis Huntington, American Society of Pension Actuaries; and Dave Hartman, Casualty Actuarial Society.

The IFAA will concentrate on discussion of common codes of conduct, discipline, education, and standards of practice. Paul McCrossan, SOA Executive Committee member responsible for international activity,



During the 1994-95 program year, members of the Board Task Force on Education gathered input from SOA members on the proposed changes to the E&E system. Here Cecil Bykerk, chair of the task force, outlines the changes for academics attending the Educator's Lunch at the annual meeting. Kenneth Friedman (left), member of the Committee on Career Encouragement, hosted the lunch.

is IFAA's first chairman, and Chris Daykin of the UK is vice-chairman. An October 1995 article in *The Actuary* gives more details.

Publications and CE move toward electronic delivery

The Committee on Member Communications researched the possibility of transforming the delivery method of Society publications from paper to electronic media. As a result, the Board approved the committee's recommendation that all current material should be available electronically by the year 2000 to meet member demand. Some publications will probably continue to be published on paper, with a smaller circulation.

The SOA electronic bulletin board system on the CompuServe network, Actuaries Online, has already put 600 files in its libraries that include software, worksheets, research reports, mortality tables, meeting transcripts, newsletter articles, and lists of passing exam candidates. Use of this medium to "chat" with actuaries from all around the world, to download files, and to conference with special interest

groups is increasing. Actuaries Online now has 1,500 subscribers. Access to Internet is through SPRY Mosaic. The September issue of *The Actuary* included several articles about cruising the technology highway.

Technology is also becoming increasingly important in the delivery of continuing education. The SOA

has found advanced computer-assisted learning to be very useful to members. It also has set up video conferences using satellite technology.

The Retirement Systems Practice



More than 100 actuaries got ready to meet the press by attending one of three Actuarial Circles briefings this year. Here Steve Bailey, business reporter from the Boston Globe, and Paul Tetrault, editor of the insurance weekly, The Standard, field questions at the annual meeting session.

Area Advanced Technology Working Group issued a report last spring, suggesting ways the SOA could improve services for its members through technology.

Other publication initiatives

This year, the SOA began development of a new refereed quarterly journal to equal major actuarial journals of Europe and scientific journals of other

(continued on page 15)

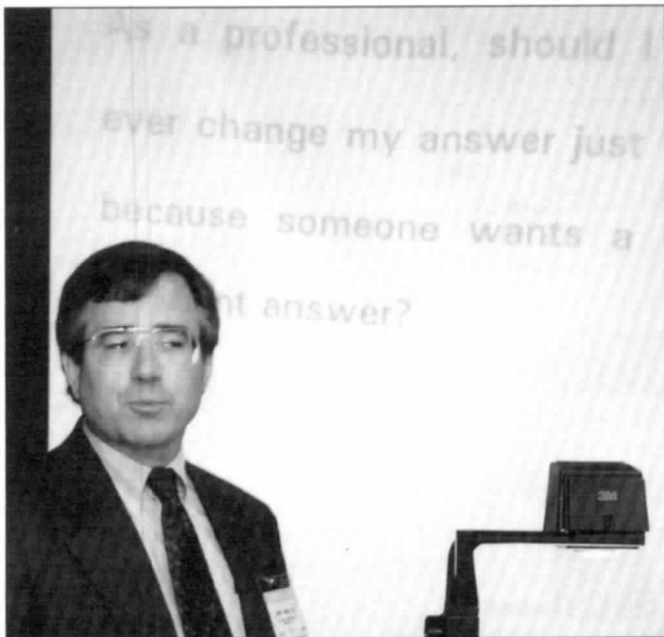
1994-1995 Year in review (continued)

professions. The first issue of the *North American Actuarial Journal* will be published in 1997. Its authors and associate editors come from within and outside SOA membership. Sam Cox, FSA, professor of actuarial science and insurance, Department of Risk Management and Insurance, Georgia State University, will serve as its first editor.

The new Committee for the Encouragement of Literature will work in close association with the new journal to actively recruit invited and solicited papers or monographs.

Other important accomplishments

In May, the SOA released the final GAR-94 Mortality Table, which has been provided to the NAIC as a possible replacement for the 1983 GAM Table for valuation of group annuities. At the same time, the SOA released the UP-94 Mortality Table.



Training in ethics and professionalism is an important part of all new Associates orientations. Jeremy Brown leads new Associates attending the annual meeting breakfast into a discussion of "real life" ethical questions.



Joseph McKenna (left) explores the features of Actuaries Online, the SOA bulletin board, with BBS assistant Debbie Jay (right) at the annual meeting exhibition hall. He later signed up to become one of the 1,500 now able to access electronic information and chat with actuaries all over the world.

That month, the SOA also accepted the Long-Term Care Insurance Valuation Methods Report, which was provided to the NAIC for developing valuation standards for long-term care insurance.

In October, the Board accepted the final draft of the statement, "Principles Regarding Provisions for Life Risks," submitted by the Committee on

Actuarial Principles. Publication of this statement, along with the earlier "Principles of Actuarial Science" (TSA XLIV), fulfills the charge given to the committee in 1988.

Also in October, the Board authorized two task forces — the Life Nonforfeiture Task Force and the Structured Settlement Valuation Task Force — to express opinions to the NAIC.

An SOA study of a wide range of public financial guarantee programs conducted by the Price Waterhouse Office of Government Services has been completed

and will become a monograph. This study can be viewed as preliminary to further studies addressing how actuarial methods could be used to assess the risks in these programs. Understanding the breadth and scope of government intervention in credit markets is the first step in developing more accurate measures of risk. Another research project, "Public Employee Retirement Plans Research: Experience Studies, Valuation Reports, and Unfunded Liabilities," will also be published as a monograph.

SOA Research and the Life Insurance Marketing and Research Association (LIMRA) completed a report on universal life persistency results that have never before been published on an industry basis. Results are shown for several different policy, agent, insured, and product characteristics.

The Intercompany Study of the Long-Term Care Experience Committee was the first public report on experience of lives insured under private long-term care insurance plans. The committee gathered and refined data secured from 10 insurers for policies in force between 1984-1991.

The *Dynamic Financial Condition Analysis Handbook* was developed to provide a new tool to analyze the risks assumed by management due to business decisions.