



SOCIETY OF ACTUARIES

Article from:

The Actuary

January 1995 – Volume 29, No. 1

The Actuary

The Newsletter of the
Society of Actuaries

Vol. 29, No. 1
January 1995



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The Actuary is published monthly
(except July and August).

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Nonmember subscriptions: Students, \$6; Others,
\$15. Send subscriptions to: Society of Actuaries,
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Printed on recycled paper in the U.S.A.

EDITORIAL

Maneuvering to survive global economic battles

by Bob Dobson

"It's a small world" is becoming more than a cliché. It's becoming a reality as we look at recent developments in the world economy:

- The General Agreement on Tariffs and Trade (GATT), approved in December, opens foreign markets to U.S. producers in the most sweeping expansion of trade ever.
- Chile has been invited to join NAFTA, with membership approvals possible as early as 1996. This giant step for Canada, the United States, and Mexico sets the stage for a hemisphere-wide free-trade pact by 2005, creating a \$13 trillion marketplace with 850 million consumers.
- The European Union may boost its membership up to 21 nations if six new members from Eastern Europe join the EU as expected by the turn of the century.

There's no escaping the importance of global awareness. As actuaries, we should have no reason to fear the globalization of our economies. Or should we? Can we, as a profession, hold our own when our positions increasingly call for us to think and function globally?

Two books I read recently, both of which I highly recommend, made me aware of what it might take to survive and prosper on the international business front. The books are *Head to Head: The Coming Economic Battle Among Japan, Europe, and America* by Lester Thurow and *From the Edge of the World: Global Lessons for Personal and Professional Prosperity*, by Roger D. Blackwell. Thurow, an economics professor at MIT, writes about the importance of teamwork and basic education. Blackwell, a marketing professor at Ohio State, writes about

values and cultural empathy. Both write about necessary change.

Let's consider how actuaries stack up in each of these areas.

Teamwork

Some might argue that actuaries are more inclined to be loners than team players. This is rumored to result from years of solitary studying of complex material. I would have to take issue with this generalization, however, especially when it comes to problem solving. Actuaries tend to work together to solve tough problems and are valuable members of interdisciplinary teams. Thurow argues that America needs to be able to structure teams of business and government, suppliers and customers, and management and labor. This level of teamwork will be a challenge, even for actuaries.

Education and values

When it comes to basic education, I do not believe anyone would question the high standards of the actuarial profession's examination system. Similarly, the value system instilled in us as we proceed through the exams is solid and strong, especially now with the Fellowship Admissions Course focusing on ethics.

Blackwell argues that, more than natural resources, value systems determine the standard of living in countries. He jokes about a sign in a Paris hotel that lost something in the translation, suggesting that guests "Please leave your values at the desk." No actuary would do that.

Necessary changes

Thurow notes that change will be the most difficult in the United States because of its success in the past. But in the changing environment, the United States will lose some of its

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- monthly pay starting in November 1994, rising to 17.35% in October 1996 and then to 19.5% on October 1999, with additional increases planned to a level of 29.6% in 2025. Self-employed people, who now pay a flat monthly rate of ¥11,100 (\$111 US at ¥100-\$1.00), will pay ¥11,700 (\$117) a month starting in FY 1995, which begins next April.
- The average monthly pension will rise by about 4%. Thus, a person who had been receiving ¥206,300 (\$2,063) will receive ¥214,300 (\$2,143), with the increase retroactive to October 1994. A retired person who had been self-employed and who participated for 40 years in the national or *kokumin nenkin* fund will receive ¥65,000 (\$650) a month instead of ¥62,275 (\$623).
 - Evaluation of past career average earnings or adjustments to workers' social security payments — done every five years — will be made based on regular monthly pay, minus taxes and insurance costs (the net wage index), instead of gross wage index as in the past.
 - Delay in the age at which benefits are available, starting in 2001 for men born after April 1, 1941, and in 2006 for women born after April 1,

1946. Partial payouts are allowed for those retiring before the eligibility age. Through the year 2013, when 65 will be the routine age of full eligibility, the percentage of the payout will fluctuate with the retiree's age.
- An adjustment will be made for a "retiree" younger than 65 who continues to work but wants to draw on the social security benefits. His or her payout will be 80% of a full pension if the total of salary and pension does not exceed ¥220,000 (\$2,200) a month. If the total exceeds ¥220,000 (\$2,200), then 50% of the excess is deducted from the pension. A person earning ¥340,000 (\$3,400) a month or more has the pension reduced ¥100 (\$1) for each ¥100 (\$1) of the excess over ¥220,000 (\$2,200).
 - Bonuses, which previously were not included in the social security premium, will be covered as of April 1, 1995, at a rate of 1% of the bonus, to be split evenly between employee and employer.
 - Foreign workers who contribute for at least six months to the social security system will be eligible to receive a lump-sum reimbursement, starting in April 1995. They can apply for

the payout after they have left Japan. Their refunds will be calculated on their average monthly salaries while in Japan and are subject to a maximum of three years' pay.

- Double-dipping by people who apply for both unemployment insurance and social security will be disallowed as of fiscal 1998, with the government withholding pension payments.
- Employee contribution is exempted for those on maternity leave (up to one year). The employer contribution continues during this time.

The reforms address many of the concerns about the pension system's inequities. Nonetheless, since the package did not include a way to encourage participation by the self-employed, the system still will have loopholes that serve to weaken it. Moreover, companies are worried about the increasing burden that they will face as premiums rise. Social security reform in Japan, as in the United States, clearly will stay on the agenda in the foreseeable future — even though the steps taken this year are sizable, considering the problems the government has faced in trying to move the pension eligibility age to 65.

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control and will no longer be writing the rules. These statements could apply to actuaries as well.

Blackwell writes that the way to a successful career in today's environment, where companies need fewer humans to get jobs done, is to make a personal contribution to a growing firm. He says the best way to make this contribution is to be able to think and function globally. To do this, one must understand demand (selling in other countries), supply (sourcing in other countries), and management (adopting methods from other countries).

Cultural empathy

How flexible and understanding can

actuaries be in situations involving multiple cultures? I certainly don't know, but in scanning the many international topics at 1994 Society meetings, it becomes apparent that program planners believe actuaries may need training in this area. Companies trying to fill overseas actuarial positions also find that actuaries' tendency to avoid risk sometimes make those positions hard to fill. I assert that the answer to how actuaries rank on cultural empathy will determine, more than anything else, how the profession does in the coming economic battle.

Issue's international emphasis

You will notice that this issue of *The*

Actuary contains several articles dealing with international topics, from President Bob Berin's address, which discusses the importance of the Society's international members, to articles on financial conglomerates in Europe and North America, actuarial education in Russia, changes in Japan's social security system, and the French health care system. We expect many of these issues to have an impact on the Society's members.

What are your views of how the actuarial profession will fare in the growing globalization of business? Please write to *The Actuary*, and let us know.