

TRANSACTIONS

NOVEMBER, 1952

ADDRESS OF THE PRESIDENT, BENJAMIN T. HOLMES
THE ACTUARIAL PROFESSION WITHIN THE
FREE COMMUNITIES

THE recently completed election in these United States may serve to remind all of us that our profession arose historically and flourishes today as a part of the free democratic communities whose growth in number and strength has marked the last two centuries. It was not entirely a coincidence that William Morgan (described by our sister Institute of Actuaries as the father of our profession) undertook the job of actuary within one year of the date on which the Continental Congress asserted that "all men . . . are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness." When we look about today at the communities which make up our modern world, I think it is obvious that our advice is most in demand where democracy prevails. Most of us serve mutual or stock life insurance companies, fraternal organizations, mutual benefit societies or business corporations. These are all enterprises created voluntarily by large numbers of individuals, assisted legally in their creation and maintenance by free legislatures. Of course, such organizations can exist in nondemocratic communities, but they prosper most in democracies, as the statistics show. Moreover, those of us who advise our governments on Social Security matters would find our responsibilities so radically altered as to be almost unrecognizable if those governments ceased to be democratic in character.

Perhaps, therefore, as a Canadian, it is not out of place for me to express pleasure at certain fundamental features of the recent election here. Vigorous disagreement there has been. Thank God for that! But the channels of information have not been dominated or controlled by any one party. Once again, the voters have cast their ballots without the shadow of coercion on their polling booths. Once again, President and Congress have accepted office as servants not masters of the American people. No spurious unanimity could ever compensate for the loss of those freedoms.

THE PROBLEM OF REARMAMENT

Many of the most difficult problems which we are presently discussing are our segments of larger problems which our communities face. The programme committee has again placed on our agenda for informal discussion the question of war hazard. It is worth while to note that the Continental Congress placed the right to life first, ahead of the right to liberty and the pursuit of happiness. For at least two centuries the free communities have bent their resources to securing that right. Our mortality statistics are drawn from communities where the ideal has prevailed that lives should not be destroyed, but that every effort should be made to prolong life.

The problem which our communities now face is the prevention of a world-wide modern war, which has become a denial of this "right to life" to an ever-increasing proportion of the population. But to prevent it, our communities have been forced so to prepare as to make aggression unprofitable. Our profession's part in that preparation is not an easy one, and calls for a quality which our fellow citizens do not usually associate with us, *i.e.*, imagination. If our communities are successful in their objective, the whole preparation, including our solutions to our part of the problem, will never be used. That does not make them unnecessary. In fact, it might be desirable to consider appropriate action regarding insurance by the business and by government in varying degrees of catastrophe, the probability of any one of which seems remote.

THE PROBLEM OF INFLATION

The second problem which I wish to mention to illustrate our part in our communities is that of inflation. In contrast with the subject previously mentioned, this is one on which there is plenty of recent experience and less imagination is needed. Surely, you will say, the responsibility for keeping the value of its dollar stable belongs to the community as a whole, led by its government. Yes, but just as surely will come the reply, communities led by their governments have not been too successful in doing this in these last years. It sometimes seems as though government, in its anxiety to do other people's work, has neglected its own.

When William Tyndale, in the days of Henry VIII, put the New Testament into English, he pictured the Good Samaritan as turning his wounded protégé over to the hotel keeper with "two pence" and saying, "Take care of him and whatsoever thou spendest more, when I come again, I will recompense thee." For William Tyndale and Bluff King Hal, that was a realistic picture. Twentieth century translators have felt that the proper gesture for the Good Samaritan in such circumstances

was anywhere from 40¢ to \$1.00. Alas! It is more than doubtful whether a hotel keeper anywhere today would be satisfied with such sums. Realism, I am afraid, requires us to consider conditions under different degrees of inflation, of which at least three can be distinguished.

1. Inflation at less than the rate of interest, which would be true on the whole from Bluff King Hal to 1945. Under these conditions, a savings fund would increase in value with time, when value is expressed in goods and services.

2. Inflation at more than the rate of interest, which has been true on the average from 1945 to 1951. Under these conditions, a savings fund would decrease in value with time, when value is expressed in goods and services.

3. Inflation at such a rate that the ordinary markets for merchandise are destroyed, as has happened in some unfortunate countries during our lifetime. Under these conditions a savings fund would lose its entire value, when value is expressed in goods and services.

This subject will form part of our discussion of papers at this meeting, and has also, during the year, been the subject of a survey (as it affects pension plans) by Mr. Bronson. Of course, the interests of that ill-organized majority of the community that we serve are definitely on the side of a stable dollar. We cannot ignore the problems which inflation poses for them or for us as their servants and advisers. It was Frank Lloyd Wright who once scornfully remarked, "There is nothing so timid as a million dollars." No million dollars has a greater right to be timid than one in a Trust or Insurance Fund protecting old age, widows and orphans—made up, in other words, of widows' mites. Our free legislatures have expressly told it to be careful. Inflation is among its worst enemies.

THE PROBLEM OF TAXATION

A third problem for all members of the free communities today is the high level of taxation. Within this area, any actuary must feel a special responsibility with respect to that substantial portion of taxation or compulsory contribution levied to finance social security in its varied forms. This sense of responsibility arises from our specialized knowledge of the relation between benefits and costs.

Most of our fellow citizens understand that the power to tax is the power to destroy, and that this destroying power is more dangerous when taxation exceeds 25% of national income than when it is 5% of national income. Even when taxation is to be returned to private members of the community, in the form of social security payments, it introduces compulsion where freedom of choice reigned before. Few wish to deny the rightful

role of compulsory social security. Our communities are to be congratulated that they are operating far enough above the subsistence level to afford a limited amount of it. Few, I believe, object to the proposition that the form and amount of social security to be adopted should depend on what the citizens as a whole decide that they wish and can afford. But they should reach this decision with a thorough appreciation of its total cost, and a realization that this total cost will inescapably (no matter how circuitous the route) reach their own doorsteps. It may reach them as a direct contribution, an increased tax, or a dollar which will buy less.

All too often, statements like the following have gone unchallenged:

To provide health insurance, it will be necessary to create a Health Insurance Fund comprising money contributed by insured persons, employers, the Provincial Government and the Dominion Government. By so distributing the cost, the financial burden will be considerably lessened.

It is refreshing, therefore, to be able to quote from Mr. St. Laurent, the present Prime Minister of Canada:

Citizens should be conscious that social security, while desirable in itself, has to be paid for and must always be proportionate to what is taken out of the pockets of those who benefit from it.

In these days, when taxation is already high, we have to ask ourselves if there are economic limits to the amount of social security that can and should be provided for Canadians.

In my mind, there are two such limits:

The first is imposed by the size of our national income . . . there is a limit to the proportion of our income that we can devote to social welfare. To devote too large a share to this purpose, instead of bringing economic security to our people, might bring economic ruin from within due to placing too great a burden on our annual production.

The second limit is imposed by the degree of willingness of individual Canadians to give up something else to pay for social security. I think we are all coming to realize that the burden of payment falls upon all Canadians—the wage earner, the farmer, the business man, the civil servant, and even the politicians who enact the social legislation. . . . We must face the fact that the greater the area our welfare programme covers the greater the amount we are going to have to pay for it. And the greater our contribution the smaller will be the amount that we will have left to spend for our other needs and wants.

Social security does have to be paid for, and the only way I know it can be paid for is either in the form of contributory payments or taxes.

As individual members of a profession such as this, we have a continuing responsibility to bring home to our communities the facts the Prime Minister has described from his own experience. Surely, in addition, there is some responsibility to keep an intelligent idea of the amount of

that compulsory cost before our voters. In free enterprise, the desire to remain solvent is always present to control costs. No such compelling motive operates constantly to keep government expenditure down. To control the cost of social security, we must rely on the voter's dislike of the high price of too much of it. There is no other form of cost control available. Surely, too, our experience of the appropriateness of voluntary methods of dealing with any particular security problem should continue to be offered.

This is a general responsibility because we are ordinary citizens who, as actuaries, have specialized knowledge. For some of us as well, the special responsibility of giving professional advice in this field is growing. I quote from Mr. Guertin:

The application of actuarial methods in the field of taxation is just beginning. As we progress into an economy in which the tax dollar looms more and more important in relation to the income dollar, long-term tax planning assumes greater and greater importance. When anticipated tax dollars are dedicated, long before collection, to welfare activities far in the future, such as social security benefits of all kinds, and have important economic ramifications, it becomes clear that actuarial methods must be applied to the solution of more and more new developing problems.

EXPLAINING OURSELVES TO OUR FELLOW CITIZENS

During the year, two papers have appeared by members of the Society explaining the nature of actuarial science to nonactuaries. In both cases they have pointed out the actuary's experience in working out reasonable solutions to intricate practical problems. Messrs. Lew and Weck, in explaining our profession to a joint meeting of statistical organizations, express it thus:

In one sense of the word, the entire life insurance business is built around simplified mathematical models. Essentially, the formulae used to express premiums, reserves and withdrawal values can all be regarded as *practical* devices for summarizing complicated relationships. *The best justification for such formulae is that they work.*

Mr. Gelles, addressing the American Society of Chartered Life Underwriters, puts the same general thought in this way:

Perhaps what is most characteristic of actuarial work in its various phases, is analysis of a clearly defined status for a group of individuals. This analysis involves mainly a determination of the duration and time of occurrence of the status for the members of the group. . . . The analysis of a status is dictated by the problem at hand. It may involve, in addition to measurement and other aspects, the shift of members from one status to another. . . . The analysis may involve the relationship of successive statuses. . . .

This experience of the actuary in presenting involved financial situations in their right proportions can be of great value in the larger field of the free communities. The three areas to which I have referred should be regarded as illustrative; they do not exhaust the list.

THE YEAR'S ACTIVITY WITHIN OUR OWN FIELD

Within our own actuarial field, but outside the pages of our *Transactions*, the past year has seen the successful conclusion of some of the first projects of the new Society of Actuaries. The papers and discussions on the forecasting of mortality for annuities have crystallized in the publication of the volume "Annuity Tables." The work of our Committee on New Recording Means and Computing Devices has resulted in the holding of a special meeting in New York on September 25th, where a review of its studies was presented very effectively to the life insurance industry, interested representatives of other insurance organizations, of government departments and of companies interested in the production and servicing of high-speed equipment. This Committee has devoted itself to the vital practical economies of operation to be secured by the use of these machines with appropriate organization. A report of the special meeting is available in printed form at the Society's office and will, I believe, constitute a landmark in the struggle against increasing costs.

In the spring the Board authorized appointment of a large and representative committee to review organization and procedures within the Society, in accordance with recommendations made at the time of merger three years ago. The chairman of this committee has been asked by the Board to present a review of its work to this annual meeting, which will take place later this morning.

Finally, I cannot conclude this very brief review of the year's achievements without referring to the completion, under the auspices of our Education and Examination Committee, of the Society of Actuaries' textbook, *Life Contingencies*, by C. Wallace Jordan. Fine as Spurgeon's *Life Contingencies* has been, a book based on North American methods and practices has been long overdue. Those of you who have been privileged to leaf it over will agree with me that it is an outstanding piece of work well worthy to be the first textbook published by the new Society.

The Society has also benefited during the year from the devoted service of all its Committees, Officers and Board members. Some of the work will become apparent to members at large in future years. Some, from its nature, is only revealed by the continued health and vigor of the Society.

LOOKING AHEAD

Fine as the achievements of the past year have been, our agenda for the future is full to overflowing. One is sometimes tempted to say with Cecil Rhodes, "So little done, so much to do!" That would lack the sense of proportion which should mark an actuary's statements. It has not been possible to do full justice in these remarks to the achievements of a profession active and vigorous, with solid accomplishment to its credit. But the responsibilities and tasks of the future keep multiplying. The new Fellows who have joined our relatively small profession during the past year are more than welcome, for demands for good actuarial advice continue to outstrip supply. We are needed by our fellow citizens as never before. Let each member resolve to make his own contribution, both to our profession and to the free communities in which we live. We are "members one of another" and, whether we will or no, we suffer and we rejoice together.