



SOCIETY OF ACTUARIES

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SOCIETY OF ACTUARIES 1995-96 YEAR IN REVIEW

THE
redesign
OF THE
actuary





1995-96 year in review

What is an actuary?

Redesigning for an enhanced identity

Last October, when 1995-96 President Sam Gutterman presented the goals he would strive for during the next year, he focused on three areas:

- 1) The actuary as an individual — To become individually stronger through improved basic education, continuing education and communication.
- 2) Actuarial science — To expand and increase the impact of research and actuarial literature.
- 3) The actuarial profession — To focus outward into new practice areas, and on more international communications, and to become more visible to the public.

To make great strides in these areas, Gutterman said he would rely on our volunteers, the practice areas, the Sections, and staff to “run along with him.” That said, he began his leadership role in a year he believed held “great promise for each actuary, actuarial science, and the profession.”

He was not wrong. Much was accomplished this year toward those ambitious goals through the efforts of all these groups.

Part of the work, however, included redesigning the basics — what is an actuary and how can an actuary become prepared to take on new roles into the next century? Redesigning basic education At its October 1996 meeting, the SOA Board of Governors unanimously approved the Board Task Force on Education’s overall design of the new basic education system. This system is being developed to provide a new Fellow of the Society of Actuaries with knowledge and application skills to be able to respond and add value to a rapidly changing business environment. The Task Force — chaired by Cecil Bykerk, with Jeff Beckley (chair of the Design Team), Rob Brown, Peter Hepokoski, John Kollar from the CAS, Godfrey Perrott, Bob Shapiro, and staff members Jeff Allen and Marta Holmberg — was given the green light

for the Design Team to proceed in the direction outlined in the August report to members.

A survey sent with the report was returned by about 800 members. Responses showed strong agreement with statements like “The proposed education system is an improvement over the current system” and “Actuaries educated under the proposed system will be well-equipped to serve their publics and fulfill their professional responsibilities.” With member input sought throughout the process, including presentations at local clubs, five spring meetings and two annual meeting sessions, it is not surprising the members generally support the direction being taken. An article on the E&E redesign membership survey will appear in the January 1997 issue of *The Actuary*.

The Board directed the Design Team to proceed with detailed development of the specifications of the Basic Courses (1-6) leading to Associateship and the Advanced



The Foundation booth was a popular location to check out the latest additions to Charter Investors and to pick up information.



Courses. Courses 1 and 2 form the foundation of actuarial education and Courses 3-6 cover the fundamentals of actuarial practice. The Advanced Courses (7-8) are an intensive seminar on modeling and an exam on advanced topics in a specific practice area. These courses should be ready to implement by January 1, 2000.

Requirements for the FSA designation also include the Professional Development component — 50 hours of education, completed within a two-year period — 25 of which must come from SOA-approved activities like seminars. Up to 25 hours may be earned from an additional Course 8, the Chartered Financial Analyst (CFA) designation, the EA-2 exam, or a research paper. Issues still being discussed are needs of candidates outside North America and validation requirements. As it is now, the Fellowship Admissions Course will be the final step to FSA after all other educational requirements are met.

Transition rules are an area of concern for those who will still be sitting for exams when the new system goes into effect. The important principles guiding those developing transition rules are fairness to the candidates and maintenance of SOA standards. General concepts include:

- New and old courses will not be concurrently administered.
- Credit will be given for new courses that generally correspond with some combination of current ones.
- Required courses will correspond.
- Elective courses generally won't correspond with the new courses, but they may be used to satisfy the professional development requirement or to complete the credit needed for the new courses.
- Candidates will have at least three sittings for each current course.

Because candidates are to have three years' notice on transition rules, the intent is to publish them early in 1997.



Chris Daykin (left), president of the International Forum of Actuarial Associations, visits at an annual meeting reception with SOA Ambassador Xiufang Li and guest Joy Ke from China.

Challenges still remain, but the final result will be a redesigned actuary whose core competencies clearly distinguish him or her from professionals in related areas and whose skills will enhance his or her value in both traditional and nontraditional roles. Looking at continuing education redesign Along with redesigning the future actuary, the Board evaluated efforts to provide current actuaries with information beyond basic education to help them in day-to-day, on-the-job performance. A Continuing Education Task Force, chaired by Rick Bergstrom, studied the SOA's CE structure in detail — seminars, meetings, technology, CE requirements, promotion/marketing, fees, speakers, and delivery methods. Their October report to the Board brought to light a key issue: the current CE system lacks a coordinated effort at long-term strategic planning. "In fact, it is not really a system, but many independent events, such as meetings, seminars, publications, and Actuaries Online," the report noted. The task force recommended a CE Coordinating Committee be established to ensure members have access to enriching educational programs.

Interestingly, a July 1996 telephone survey, conducted with a random sample of 500 members, revealed that 90% of the members surveyed favored a mandatory continuing education

requirement for the profession. The Continuing Education Coordinating Committee will investigate this issue further and report back at the March and May 1997 Board Meetings.

In addition to a variety of practice area seminars, significant events in continuing education this year were two seminars on Social Security in Canada and Washington, D.C., a healthcare symposium on risk adjusters, and the development of three CD-ROM modules to provide alternative delivery

of CE material.

Framing new Mission and Vision Statement

Again, internal contemplation of what is an actuary and why does the SOA exist? — so necessary before communicating with outside audiences — resulted in this year's new Mission and Vision Statement. The final draft, developed by President-Elect David Holland and approved at the May 1996 Board meeting, reads:

The Society of Actuaries is an educational, research, and professional organization dedicated to serving the public and Society members. Its mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business, and societal problems involving uncertain future events. The vision of the Society of Actuaries is for actuaries to be recognized as the leading professionals in the modeling and management of financial risk and contingent events.

Each of the terms and concepts used in the statement was further amplified, and they will be published in the 1997 *Yearbook*.

Revising governance structure A new mission statement was one of the strategic directives accomplished in the 1995-96 program year. Another was revising the governance structure.

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For two years, under the leadership of Harry Garber, the Task Force on Governance and Governing Issues had been reviewing the SOA's operations and effectiveness. Its actions have already led to improved internal controls, creation of a separate audit committee, and refocusing the Board on its governance role instead of that of management.

At the October 1996 meeting, the Board dismissed the task force with thanks and approved these recommendations for implementation:

- Changing the Executive Committee with its substantive Board functions to an Operations Committee with management and oversight responsibilities. This more clearly assigns the Board of Governors the governance role and avoids a "mini-Board" pre-digesting issues before the Board meets.
- The six SOA vice presidents will not automatically sit as members of the Operations Committee. They will instead serve on the Committee on Planning (to be

renamed Committee on Strategic Planning). The task force believes that by focusing the vice presidents on strategic issues, the SOA can attract vice presidential candidates who may have previously hesitated to take on the heavy management and governance demands currently required.

The transition will take careful management, and some changes will require bylaws changes. These represent the most important changes in structure and processes since the SOA was formed almost 50 years ago. New actuarial literature Another 1995-96 strategic directive was to expand actuarial literature through the new Scientific Publishing Plan, which was outlined in the October issue of *The Actuary*. The plan includes a new monograph series of research reports, of which five have already been published. Mike Cowell is the editor.

The plan also calls for replacing the *Transactions* with a new quarterly journal, *The North American Actuarial Journal*. Sam Cox, editor, and the staff are gearing up to launch the new journal in January 1997. The first issue promises to show the wide range of views and interests of today's actuarial profession. A November 1996 article in *The Actuary* announced the first issue's contents — everything from financial derivatives to the actuarial aspects of Jane Austen's novels.

The *TSA Reports*, with Douglas Eckley as editor, will continue to publish annually with experience studies, committee reports, obituaries, and other standard items previously in *Transactions*.

The Record, previously a bound book, will be available electronically on Actuaries Online beginning with the 1996 meetings, giving members faster access to meeting session content and saving money in printing and postage. Volume 21 covering 1995 meetings will be the last book; however, those without electronic services can request hard copy from the SOA Books Department.



Pat Brockett (left) and Sam Cox (center) accept the last Annual Prize award for the best paper published in *Transactions* in the past year. *Transactions* is being replaced in 1997 by the North American Actuarial Journal. Other authors of this paper, "Actuarial Usage of Grouped Data: An Approach to Incorporating Secondary Data," not able to be at the annual meeting were Boaz Golany, Fred Phillips, and Yun Song.



Anna Rappaport, incoming president-elect, tells members of the challenges the profession will face from the aging society. She will pursue joint cooperation with other organizations who work on similar issues.

Redesigning communications through technology Besides *The Record*, much information useful to actuaries is now online, either through the SOA CompuServe forum, Actuaries Online, or the SOA's new Internet home page — or both.

Actuaries Online, with more than 1,000 files, continues to be a popular choice for its 2,000 subscribers. The Research Library, for example, contains calls for research proposals and status reports of current projects. The Software and Worksheets Library has a table manager program with more than 500 mortality tables built in. The Opportunities Library provides a place for companies to list open positions. Typically, dozens of downloads are noted within the first day of posting a job.



The SOA web site (www.soa.org) went live in July. In the first month, the home page was accessed almost 7,500 times, with nearly 97,000 hits. The most active day to this point was when passing candidates numbers were posted — 19,183 hits on July 19. The top five countries for users are the United States, with 68%, then Canada, Hong Kong, Singapore, and Switzerland.

Site visitors will see the SOA home page is under permanent construction to keep information fresh and useful. Plans include adding an international continuing education calendar and expanding hot links to other web sites of actuarial interest.

Expand alliances with other organizations
Internationally, efforts to share resources through cooperation with other organizations was a focus this year. The International Forum of Actuarial Associations (IFAA) has already begun to strengthen relationships to the benefit of the worldwide profession. It had hardly been formed when the International Accounting Standards Committee asked for the IFAA's input on internationally recognized standards for employee benefits. The IFAA will continue to explore global actuarial education to truly realize its mission "to develop a global profession of technically competent and professionally reliable actuaries who are recognized as such."

In other international ventures, a delegation of North American actuaries traveled to Brazil in August to open discussions with South American actuaries. In addition, members of other countries' actuarial organizations are beginning to come to the SOA to apply for Correspondent status. This allows them to participate in SOA meetings and receive publications.

The September issue of *The Actuary* was devoted to discussions of the IFAA and other international issues.

In the United States, the Health Practice Area, in particular, had several outreach successes. The AAA/SOA Joint Task Force on Communications

for Health Issues began work to promote awareness of health issues and activities. It developed a web page to reach actuaries and those outside the profession in academia, government, and the public. The Joint AAA/SOA Health Financial Issues Committee has formed several task forces to address health insurance issues. Alice Rosenblatt and Dan Dunn (Harvard University) presented findings of the SOA Risk Adjustment study at an SOA seminar and at the annual meeting of the Association of Health Services Research.

The work of the SOA Life Nonforfeiture Task Force and an Academy Working Group also was helpful in providing regulators with an actuarial framework for nonforfeiture to replace the current U.S. statutory formula. The Academy took the SOA task force framework and developed practical examples to help regulators develop a draft of a proposed law. The SOA and the AAA also spent time in meetings educating the industry and regulatory actuaries. They made presentations to the Actuarial Standards Board and the NAIC, and they were the first nonregulators

asked to address to the NAIC Commissioners Round Table. The SOA also provided research helpful to the NAIC in developing regulations for the sales illustrations and valuation of individual annuity contracts.

In response to the Mexican actuarial organization, CONAC, SOA actuaries are helping set up life, annuity, and disability experience studies.

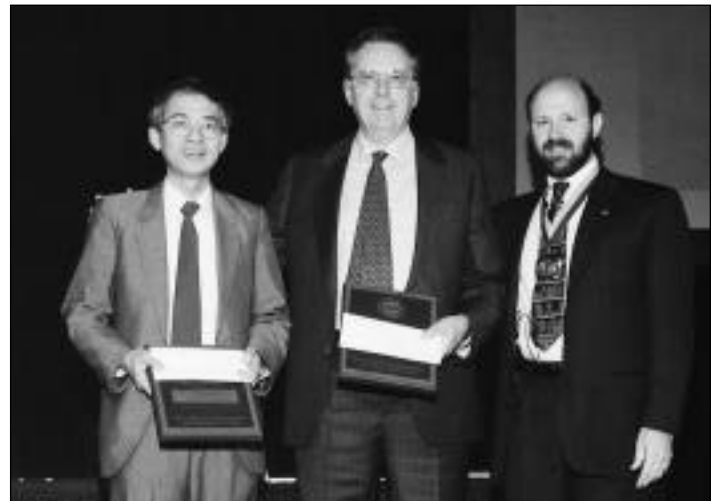
The Retirement Systems Practice

Area's study this year into the feasibility of developing a macrodemographic model for retirement also advanced their goal of improving relations with other organizations and professions, including economists and demographers. Other research links this practice area with the Actuarial Standard Board's pension committee to develop a standard on asset valuation methods and the PBGC to analyze the effect of the Department of Labor's "safest annuity" rule.

The Finance Practice Area also expanded its activities to include several cooperative ventures. It explored emerging practice areas — banking and financial institutions and capital projects — to consider ways to expand actuarial opportunities. Its successful seminar on the Market Valuation of Insurance Liabilities at New York University in December 1995 included a presentation by a representative of the Financial Accounting Standards Board staff.

Communications between the SOA Investment Section and the Association for Investment Management and Research resulted in actuarial work

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(L-R) Elias Shiu and Hans Gerber are awarded the Halmstad Prize, administered by AERF, for their papers "Martingale Approach to Pricing Perpetual American Options" and "Option Pricing by Esscher Transforms." Klaus Shigley won the L. Ronald Hill Memorial Prize, established by William M. Mercer for employee benefit plan papers. His "Pension Max Election" paper was published in the October 1995 Pension Forum and will be in the last volume of Transactions.



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becoming acceptable experience to work toward the CFA designation. In addition, the SOA was accepted as an affiliate of the American Association for the Advancement of Science, which is formal recognition of the actuary's role as a scientist.

The SOA Committee on Actuarial Principles is working with the Casualty Actuarial Society to articulate a set of general principles that will apply to both life and casualty. In a separate initiative, the Finance Practice area is developing asset/liability management principles. Redefining experience studies and expanding research. A comprehensive report by the Experience Studies Task Force in October 1995 recommended improvements needed to ensure efficient management, funding, timeliness, and usefulness of experience studies. In May, the Experience Studies Oversight Subcommittee received survey responses regarding the value of various studies to users. Recommendations were approved, and since then several experience studies have been issued or are being prepared for the next *Reports* volume. These include:

- 1988-89 and 1989-90 Individual Life
- 1985-89 Group Life
- 1992 Private Settlement
- 1993 Structured Settlement
- 1991-92 Group Annuity
- 1983-88 Cause of Death

Significant strides have been made this year in research of topics as timely as today's headlines. Some recent studies appearing this year as SOA monographs cover these topics:

- Valuation of interest-sensitive financial instruments
- Public employee retirement systems
- Public financial guarantee programs
- Catastrophic claims health data base
- Health risk assessment

The catastrophic claims research has become one of the Society's most-requested reports in recent history and has been of great interest to the media.

It has been reported on by *The Wall Street Journal*, *Worth Magazine*, Reuters News Service, and *American Hospital News*.

SOA staff redesign

The Society of Actuaries is an extremely complex organization. A staff report this year to the Board outlined in detail the scope of existing programs, level of staff support, and approximate costs. Under the Board's leadership, 116 committees comprised of 1,300 volunteers and 13 special interest Sections governed by Section Councils provide 84 programs and services. This work is supported by a full-time staff of 75 in the Schaumburg office, and according to members, is being done well. In a July survey, 60% of the 500 members randomly selected to be surveyed said that SOA staff is "effective in implementing programs, services, and policies" and 61% said it is "responsive to my requests and needs."

Although staff support to officers and volunteers continues to increase, a shift in responsibilities gave present staff increased opportunities and avoided adding more employees. Building on strengths already in place and focusing on efficiencies gained through experience helped make staff adjustments to handle increased work load.

At the top level, two departments were merged when Director of Operations Chelle Brody moved to Florida. Communications and Operations were combined under the direction of Linda Delgadillo, CAE (Certified Association Executive). This includes all the publications, public relations, human resources, and general office operations, including Sections and elections.

New levels of responsibility were given to several staff members in this transition. Dana Mikula, a two-year employee, is now manager of human resources and office operations. Cecilia Green, APR (Accredited by the Public Relations Society of America), hired six years ago as editor of *The Actuary*, was named director of public relations. She will be involved in promoting research and publication content, recruiting for



Incoming President David Holland outlines the SOA's new Mission and Vision Statement that aims for actuaries "to be recognized as the leading professionals in the modeling and management of financial risk and contingent events."

and marketing of the profession, media relations for the Society, management of Foundation consumer education programs, and contacts with Forecast 2000, the profession's public interface program managed by the American Academy of Actuaries. Barbara Simmons, Associate Fellow in the Society for Technical Communications, an eight-year employee and publications manager at the SOA for three years, has increased responsibilities in editing and design of the new monograph series, the *North American Actuarial Journal*, and electronic delivery of *The Record*, as well as 13 special interest Section newsletters.

With the retirement of registrar Bern Bartels, Martha Abel, manager of examinations, and Phil Turk, registrar/E&E analyst, have assumed additional responsibilities to maintain management of the exams process.

Karen Baymiller, who is leaving the SOA, will work on a contract basis to manage the SOA annual meeting exhibit trade show and arranging Board meetings. Colleen Fiore, who has been in the Continuing Education department for seven years, will assume responsibilities for annual and spring meeting logistical arrangements as meetings manager.