



SOCIETY OF ACTUARIES

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PRESIDENTIAL ADDRESS

Reaching out to make a difference



by Anna M. Rappaport
 Address at the Annual Meeting
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It has been wonderful to serve as your president in these exciting times. Never before have the issues on which actuaries are experts been so important to society.

This meeting marks the beginning of the SOA's 50th year, but the organized profession dates back 150 years to Great Britain. I'm proud to say that throughout that time, actuaries — as individuals and as a profession — have reached out and have indeed made a difference.

Actuaries and the Society of Actuaries have been influencers of, and participants in, major societal issues. By forming relationships with other influencers, we can increase our impact both inside and outside the profession, leading to important changes for the coming years.

Granted, our traditional role has been to support financial security systems. But we are working to build an expanded presence in the future — a presence that encompasses our tradition and adds to our scientific knowledge base.

In our mission and vision statement, we acknowledge that our organization is dedicated to serving the public and Society members. Furthermore, we state that 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."

The actuary's multiple roles. Because we are a multifaceted profession, we are required to fill many roles.

First, and most importantly, we are scientists. By creatively applying our science in various environments, we help maintain financial security systems. In addition to our role as scientists, we are advisors and financial managers. In playing these parts, we protect participants, that is, those people covered by financial security systems. Some would even say we act as regulators. In all these roles, we are required to be professional, innovative, and true to our science.

It is our responsibility to recognize the implications of our work for all stakeholders and to understand which stakeholder we are representing. Often, we are balancing the interests of different stakeholders.

I'd like to take a few moments to examine each of our roles from my perspective, beginning with the actuary as a scientist.

In this role, it is critical to focus on innovation and the application of traditional methods.

To build our science, the Society over the years has focused on research and relationships with academia. While we have made great progress in these areas, we still need to do more with research.

We are increasingly recognizing the value of multidisciplinary efforts. In doing so, we have found that relationships with other professions and organizations are key to our future success. In fact, those relationships serve as enablers by generating diverse ideas as we apply our science in different ways. They also lend our work credibility that goes beyond that provided by our qualifications and

give actuaries and their contributions visibility beyond our professional borders.

It is in this kind of collaboration that new applications of our science will be developed. Last year, for example, in our social security mortality projection research, we forged relationships with scientists in several different disciplines, including biology, demography, and economics. The diversity of perspectives and open exchange of ideas enabled all participants to more richly study the matters we were examining. Another example is an upcoming research conference on fair value accounting to be conducted jointly by the SOA, New York University, and LOMA. The science and theory of fair value accounting are being developed, and our relationships will make it easier for us to influence emerging accounting practice. This research should help us develop our science and also help the American Academy of Actuaries in its relations with the accounting profession.

Of course, research occurs in universities, and good relationships with institutions of higher education are vital. SOA members in academia are creating new tools that will change and expand actuarial contributions in future decades. For example, in the finance practice area, emerging methods of measuring and evaluating risk are being studied intensely in academic institutions (as well as in private companies). For obvious reasons, this work is very important to a variety of financial organizations.

Another part the actuary frequently plays is that of advisor. Here again, a major key to success is the relationship between the advisor and party or parties receiving advice. Developing trust and confidence is essential to facilitating the dialogue required in this role, in large part because of the nature of advice in an era of tremendous flux.

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Actuarial science is not always so well defined that clear, single answers to problems are readily apparent. Today, when the environment in which financial problems exist may frequently change, innovation and professional judgment are increasingly important. There are often trade-offs among alternative strategies — trade-offs that affect various stakeholders differently. The actuary, however, is well trained to provide insights about the likely consequences for stakeholder groups, so it is critical that the relationships between actuaries and those they advise are strong enough to allow actuarial advice — and therefore the views important to stakeholders — to be heard.

Unlike many other financial professionals, the actuary also has a role in protecting participants. For pension actuaries, this responsibility is very clear, in that ERISA requires the plan actuary to act on behalf of participants. Some also view this as a regulatory role for actuaries. The role of the valuation actuary or appointed actuary requires a different point of view than simply applying science to support the needs of a single stakeholder. The actuary who signs the statement for an insurance company also protects participants by focusing on the adequacy of reserves.

In fact, one of the things that has differentiated us as a profession is our responsibility not only to our employers but also the people covered by the financial security plans our employers offer or regulate.

The last role I would like to discuss is the actuary as a financial manager. Our models can be used for careful budgeting and for solving financial problems in many settings. In fact, the British Institute of Actuaries highlights this in its 150th anniversary theme, “Making Financial Sense of the Future.”

As a profession, what we bring to the role of financial manager is a unique focus on uncertainty and risk, a longer-term perspective, and an emphasis on and understanding of multiple interests.

In filling these many roles, the actuary is the glue that binds people, ideas, science, and creativity. For example, the actuary working with a financial system needs a broad perspective on how that system operates. An actuary in that role frequently is the person most knowledgeable on how systems fit together. In life and health insurance, the actuary must not only understand design, pricing, financial management, underwriting, marketing systems, legal requirements, and

administration but also how they fit together. Actuaries are also ideally suited to help interpret issues among multidisciplinary team members. Specialists who are not actuaries often focus on a single area, and generalists may not have a good view of how finance interacts with other areas.

Once again, our relationships enhance our value, since they increase the chances that we can play a broader role in solving financial security problems.

Finally, there is one other relationship I’d like to mention because it sets us apart as a profession: We are the people behind the numbers for many financial security systems. Not many professionals can lay claim to this. While not necessarily a direct relationship, it is one we have with most people and it impacts their lives, yet it’s an invisible role to many of them.

We have a sense of obligation and professional responsibility to be proud of. As we play out our these roles today and tomorrow, we encounter opportunities and face challenges.

Enhancing future opportunities We will enhance our opportunities by building relationships with other professions and disciplines to resolve societal, financial, and business challenges. This requires attention on an ongoing basis.

As a profession, we must think carefully about the individuals and organizations with whom we want relationships. We need to identify the right people, initiate and then regularly maintain contact, and build mutual respect. Most importantly, we must offer something. Relationships only work when both parties derive value.

While the Society of Actuaries can do much as an organization to forge relationships, individual actuaries should also work side by side with those in the organizations we hope to create relationships with.

As individuals, we need to network inside and outside our profession. Developing avenues of exchange will position us well to help meet societal challenges involving risk management.



Anna Rappaport (right) tours Birmingham, England, with Dominic Lee, SOA ambassador to Hong Kong and member of the SOA's new Greater China Committee, and his wife, Ann, at the International Congress of Actuaries in June.

Societal challenges

As you know, these societal challenges are significant. I view three as the most pressing:

- Needs stemming from the growth of aging populations around the world, particularly the needs of elderly women
- Changes affecting our traditional employers and our relationship with them
- Issues relating to retirement security, with an emphasis on personal saving and social security reform

In the United States, the economic status of the elderly has improved dramatically, but there are still many poor or near poor, particularly among elderly women living alone.

One-third of Americans over age 65 are females living by themselves. About 80% of females living alone are widows. Economic status generally declines at the time of widowhood and often continues to decline. In 1991, more than 27% of recent widows were poor or near poor (annual income below 150% of poverty level) and 43% of long-term widows were poor or near poor. Fifty-two percent of long-term divorced and separated women were poor or near poor.

The financial security systems — pensions, life insurance, health benefits, and long-term care — that actuaries have built and managed are not working well enough for many women. Solutions to these problems require changes in individual and family actions, employer decisions, public policy, and public systems. Insurers can influence these solutions by the way they design and market their products and advise their customers. Actuaries are involved in these issues at all levels, and the effectiveness and influence of our role will depend on our relationships with people and organizations of influence and power.

The Society's relationships with the Pension Research Council and the National Academy for an Aging Society allow actuaries to address these aging society issues more effectively. For

example, both organizations participated heavily in the SOA research project on social security mortality and helped us identify and secure other experts as well. Both will also be cooperating organizations in our planned Retirement 2000 Symposium, along with the National Academy of Social Insurance.

The Pension Research Council's joint sponsorship of such projects contributes to a wider distribution of research results. Several actuaries have been active in the Pension Research Council. The SOA Pension Section and The Actuarial Foundation provided some support for the council's 1997 conference. I have been a co-organizer of three of its conferences, and I have participated in several more as an author of a paper or as a discussant. Books by Bob Myers, former chief actuary of the U.S. Social Security Administration, and several other actuaries have been published by the council.

Some actuaries are also active in the National Academy of Social Insurance, and The Actuarial Foundation has supported some of its work.

In combination, participating in the activities of these groups and partnering with them brings actuaries into the broader community of experts working on aging society issues.

Another significant challenge the profession faces is with our traditional employers. In both insurance and health care, mergers have become common. In addition, banks and insurance companies now offer competing products. While regulation in the United States has slowed these developments, banks in other countries have offered insurance products for some time. Insurance risk has also been securitized, leading to a blending of insurance and other financial arrangements.

The programs at the Valuation Actuary Symposium, the SOA spring meetings in Maui, this year's annual meeting, and several seminars address these issues. Many of these gatherings have brought in outside speakers and collaborators. They help us build valuable relationships.

In health care, risk is now borne by different entities. For many years, risk was generally assumed by insurance companies, HMOs, or employers, but today, more providers are bearing risk.

The health care market has become more competitive and cost increases have moderated, but it is anticipated that they will escalate again. Several major health care companies and HMOs have experienced financial difficulty in the last year.

Health care purchasers seeking quality and affordability have difficulty in defining what quality is, and public backlash against managed care has increased. Several years ago, the SOA chose managed care effectiveness as a critical issue for the profession. As a result, three research projects were identified. In each project, a partnership with outside professionals exists. Much more work must be done in this area, but our chance to have an impact and make a difference increases when we have a broad perspective that comes from a diverse team of professionals.

The issues centering on retirement security represent another challenge for the profession. In particular, the spotlight is on personal saving and social security reform. Many parties are stressing more personal and less institutional responsibility. But there is concern about the ability to save among people at lower income levels. Stock market results over the last decade have fostered an attitude that equity investment is the solution to security. Those who study the balance of risk and return see a strong role for such investments, but they are also cautious.

In the United States, defined benefit plans are strongly favored by plan sponsors who cover more than 1,000 employees, but smaller employers have replaced them with defined contribution plans. In fact, defined contribution plans are part of the social security programs in Mexico, Chile, and some other countries. The U.S. Congress is debating defined benefit and defined contribution approaches for the nation's Social Security program.

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With a focus on retirement security, the Society of Actuaries embarked on a significant project. We have called this the "Retirement Needs Framework" project. This work will focus on the period after retirement, while most previous retirement-related research has emphasized saving and planning up until retirement. For the first part of this project, a call for papers and a symposium at which they were presented, we received 15 papers, with more than one-third coming from authors outside the profession. The highly successful symposium was held Dec. 10-11. Linking our traditions and our future

As our president, it is important for me to recognize that our current work builds on a rich past and leads us toward a future direction. Each president adds to an evolving organization and the growth of the profession. I would, therefore, like to put the challenges I've presented into perspective.

Over the last 15 years, each of us — individually and as part of our profession

— have witnessed major changes, sometimes positive and sometimes disruptive. In looking back at the themes critical to us 15 years ago, we find recurrent themes, some successes, and areas where we wish more had been done.

The first theme identified 15 years ago, one of several enumerated by 1982-83 Society President Barbara Lautzenheiser, was enhancing the value of the FSA. This remains a major priority today. Similar issues are important in the United Kingdom and Australia. We have had continued emphasis and made major progress on several other areas she identified: the educational system, research, continuing education, cooperation with academia, and support for the valuation actuary. In spite of good progress, we must continue to work on each of these. On others we have made progress, but we need to work harder. These include support for the pension actuary and encouraging intermediate-length articles in our professional publications.

Because we have done little on education for nonmembers, this remains an opportunity today. I would also add to the list created by Lautzenheiser the item "expanding the areas of actuarial employment." This is a major concern for the future, and frankly, our progress has been disappointing.

Not on our list 15 years ago was the need to find a balance between short- and long-term focus and the need to deal with a rapidly changing environment. I believe we have dealt heavily with the short term and am very pleased that the 1998 Strategic Planning Committee has focused primarily on the longer term.

It is important to remember, though, that today the profession is more focused on how actuaries serve the needs of their customers than it was 15 years ago. This is an important step forward, which I helped advance over the past two years.

Our future success While our profession is doing well today, those we serve are undergoing tremendous change. Our future depends on adapting to that change and serving our customers well.

The critical success factors we have articulated provide a framework for meeting these needs. They are consistent with past activities but focus more sharply on those we serve. These factors are for the profession to:

- Be relevant to customer needs
- Provide value to a large enough constituency to sustain meaningful work for current and future members; this includes expanding our horizons as a profession
- Be recognized and credible with employers, clients, policy makers, and the public by clearly defining who we are and how we differ from other professionals
- Expand the scope of the actuarial profession
- Find new, meaningful application of our science, while preserving its integrity and uniqueness



Jacques Carriere, left, and Edward W. Frees accept plaques for the Halmstad Prize from Anna Rappaport at the 1998 SOA Annual Meeting. The prize, administered by the Actuarial Education and Research Fund, was awarded for their paper with Emiliano Valdez (not pictured), "Annuity Valuation with Dependent Mortality," published in The Journal of Risk and Insurance in 1996.

The profession in Australia has developed a generalized way to describe what we do, called the actuarial control cycle. Actuaries there have been doing a great deal to make this concept more widely known. Their work clearly demonstrates that we can apply our science in many different ways by focusing on specifying the problem, developing the solution, and monitoring the experience.

As professionals, we want to focus on the following as we move into new applications:

- Influencing public policy
 - Maintaining membership quality by recruiting, educating, and retaining people who are a credit to the profession, the customers, and the societies we serve
 - Being forward looking, flexible, and adaptable
 - Encouraging the use of actuarial services in the absence of government regulations
 - Focusing professional resources on outcomes most important to members and the public
- My vision for the success of the SOA also includes:

- Providing a relevant education system
- Keeping education, examination, and continuing education systems in line with the profession's needs
- Conducting and sponsoring research that maintains and expands the actuarial knowledge base to add customer value for new and existing practice areas
- Offering strong, effective member services so that members add value to their customers
- Maintaining and developing a strong volunteer system and effective staff support

These critical success factors are a framework for testing priorities and allocating resources.

The issues identified 15 years ago remain important today. But now more than ever before, we need to focus more on working with others to meet our goals. Relationships with users of our services and groups with common



Presidents and presidents-elect of North American actuarial organizations signed a new working agreement at the 1998 Council of Presidents' meeting on Oct. 2. The working agreement helps increase the quality and variety of services offered by the organizations while eliminating unnecessary duplication of effort without restricting any organization's independent decisions.

interests are just as vital to our success as relationships within the profession.

I believe our mission and vision will become reality:

- We will significantly contribute to helping nations, businesses, and individuals meet the challenges of an aging society.
- The customer base of our profession will expand, and we will be respected by a broad range of customers.
- Our profession will be respected by the policy and academic communities in the nations where we

practice, and we will be part of the multidisciplinary teams that provide advice on policy issues.

- Solid ongoing relationships will lead to joint ventures, enabling us to participate in richer research projects appreciated by many more users.
- Our members will have good career options.
- "Actuary" will truly be the best job.

I believe our profession is strong today, but we must be open to change and progress. I am confident we can take the steps needed to build a positive future.

50th anniversary sponsorships offered

The 50th Anniversary celebration for the Society of Actuaries will include a unique opportunity never offered before, and which may never be offered again. By becoming 50th anniversary sponsors, companies that employ actuaries or otherwise support the profession can, for the first time in SOA history, gain special recognition in the Society's

professional publications, on the Web site, and at the annual meeting.

Sponsorship levels have been set at Platinum (\$50,000), Gold (\$25,000), Silver (\$10,000), and Bronze (\$5,000), with a list of benefits for each. To get on the mailing list for the 50th anniversary sponsor package, contact Cecilia Green (847/706-3561; cgreen@soa.org).

Outreach at New York annual meeting

With more than 160 educational sessions and special events, the 1998 SOA Annual Meeting in “the city that never sleeps” offered continuous opportunities for learning and networking. More than 1,700 people attended the meeting, held Oct. 18-21 at the Marriott Marquis in the heart of Manhattan. Keynote speaker Lester Thurow, MIT professor and renowned author, spoke at the general session, Oct. 19, on the rapidly changing economic environment in light of dramatic,

constantly evolving technological developments. Other highlights included tours of the Federal Reserve Bank and the United Nations and an onsite presentation by an advertising agency focused on direct marketing.



Ron Gebhardtbauer, senior pension fellow of the American Academy of Actuaries, scans the SOA's Internet guide with Debbie Jay, SOA Web development coordinator, at the SOA's booth in the annual meeting exhibit hall.



The gavel is passed from 1997-98 SOA President Anna Rappaport to Howard J. Bolnick as he begins his term as 1998-99 president.



Posing before a special ice sculpture at the member reception during the annual meeting are (L to R) Harry Panjer, immediate past president of the Canadian Institute of Actuaries; John Trout, director of public policy, American Academy of Actuaries; Anna Rappaport; and Bob Myers, former chief actuary of the U.S. Social Security Administration.