TRANSACTIONS OF SOCIETY OF ACTUARIES
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TOPICS OF INTEREST TO CONSULTING ACTUARIES

1. What new problems for consulting actuaries will result from the revised Internal Revenue Department regulation on pension and profit sharing plans?
2. What are the advantages and disadvantages
   a) of imposing some limitations, by State or Federal legislation, upon the right to assume the designation "actuary"?
   b) of permitting actuaries to represent their clients before the Internal Revenue Service, as do lawyers, accountants, and certain other professional categories?
3. Is any Federal or State regulation necessary or desirable in order to further the sound actuarial and financial operation of self-administered retirement plans? If so, what form should such regulation take?
4. Since the 1954 Revenue Act placed insured and self-insured sickness and accident plans in an equally favorable position, taxwise, has there been any trend in the direction of self-insurance of such plans? What are the factors which should be brought to the attention of an employer who wishes to consider such a change?
5. What important problems are currently faced by consulting actuaries specializing in insurance company work and related activities?
6. Should consulting actuaries undertake to cooperate, as do the insurance companies, in the pooling and analysis of the various experience factors entering into the determination of actuarial costs of self-administered retirement plans?
7. What are the minimum and maximum limits of the consulting actuary's responsibilities in connection with
   a) the choice of funding medium to be used for a retirement plan, and the consideration of changes in the funding medium?
   b) the investment of the assets of a trusteed retirement plan, and the valuation of such assets?
8. What is the minimum obligation of the consulting actuary, in presenting actuarial cost and liability figures to his client, to describe the methods and assumptions underlying them, and to explain why such methods and assumptions were used?
9. In connection with the determination of the actuarial costs and liabilities under a trusteed or deposit administration retirement plan, what criteria should be applied by the consulting actuary in choosing or recommending
   a) the assumptions as to interest, mortality, etc.?
   b) the actuarial cost method—level premium, aggregate, etc.—used in evaluating the principal benefits?
   c) the appropriate modifications, if any, in the basic cost method to be used in evaluating disability benefits?

MR. S. N. AIN stated that there are four categories of changes in the new Internal Revenue Service Regulations on pension and profit sharing plans: (1) the inclusion of former rulings in the form of Regulations, (2) clarification of old rules, (3) changes resulting from new attitudes by the Internal Revenue Service, and (4) changes which came about as a result of amendments to the Code itself. Mr. Ain felt that there would be no problem in connection with including the integration provisions, which are now more specific, in the Regulations rather than, as formerly, in rulings. However, the specific regulation that you cannot have an integrated profit sharing plan if you have an integrated pension plan is going to present problems in view of the other changes in the Regulations. In addition, the Regulations now cover the provision regarding the inclusion in income of the cost of insurance whereas it was formerly in the rulings. Mr. Ain stated that the points clarifying the old rules in regard to the Girard Trust or Hanover type of profit sharing plan where an employee has a choice of an immediate or deferred benefit would be helpful, although the final point has probably not been made. The real challenge that is to be faced by consulting actuaries is one that came not as a result of an amendment to the Code, but as a result of a change in the attitude of the Internal Revenue Service in eliminating the requirement of a definite formula in profit sharing plans. Mr. Ain felt that this is going to make profit sharing plans a lot more desirable and it will be necessary for us to find ways of using the profit sharing plan to solve the pension problems of clients. Mr. Ain said that he did not feel that the other points in the new Regulations would present any problems.

MR. S. H. HUFFMAN stated that he agreed with Mr. Ain in that there was a likelihood of more interest in the deferred profit sharing plan particularly in young companies, now that a predetermined formula is not required. He recommended that consultants would do well to try to install a minimum profit sharing formula so that employees can count on something in the way of benefits. Otherwise employees might be led to believe that there was going to be a profit sharing plan and then end up with nothing. The other point Mr. Huffman stated, which is going to cause a great deal of dissatisfaction and cause plans to become disqualified, is the rule that you can install a plan and let the employees decide either once and for all or each year whether or not they will take cash or share in the deferred profit sharing plan. The problem is that even though a higher percentage of employees sign up for the deferred plan it is known that by the time two or three years have elapsed a large percentage of the employees will take cash, and thus, he advises his clients, it is a complicated way of paying a cash bonus. Furthermore, the Bureau has specifically called attention to the fact that in qualifying the plan those who are eligible will be all the employees, but those who participate will be the ones who actually elect to stay on a deferred plan. That means that the plan may start off for a couple of years and high-paid executives, who are desirous of the tax advantages, will then find themselves high and dry with a disqualified plan. Mr. Huffman sees trouble ahead in the installation of this type of plan. MR. J. K. DYER, JR., stated that he understood that several of the New York banks who started this type of profit sharing plans were quite happy with the rulings and thought they could live with them satisfactorily.

MR. M. L. GROVER stated that in discussing legislation of this nature, we should keep in mind the people whom we wish to protect through this type of legislation. A partial list of the uses of actuaries would include life insurance companies that have actuaries as employees and also use them as consultants; life insurance institutional agencies that have employees who are actuaries and also have consultants; the various departments of the Federal and state government that use actuaries as employees and also as consultants; health services that have actuaries both as employees and as consultants; universities that have actuaries as instructors; attorneys that sometimes use actuaries as expert witnesses; and finally, private employers that sometimes have actuaries on their staffs as employees, and very frequently retain them as consultants. In general, insurance companies, universities, Federal and state agencies, and the larger health services are in a position to know what an actuary is and to be able to properly evaluate someone when they hire him or retain him. On the other hand, private employers very rarely come in contact with actuaries before they enter into a funded pension plan. At the time when they are ready to install a pension plan, frequently the pension salesman who happened to call on the company at just the right time is the one who gets retained to do the job and if that salesman happens to find out that the employer is interested in a self-administered plan he immediately becomes an "actuary."

Mr. Grover stated that in his area in San Francisco they have the following categories of business men who call themselves actuaries: Fellows of the Society of Actuaries doing consulting work; Associates of the Society doing consulting work; casualty actuaries doing consulting work; a Ph.D. in Mathematics doing consulting work; a very experienced pension consultant who is just too busy to take the examinations; a former life agent who is incapable of passing a single examination; a vice president and actuary of a life company who has a Ph.D. but no examination; an associate actuary of a life company with no degrees and no examinations; and, of course, plenty of Fellows and Associates of the Society who work with life companies. In this instance we are primarily concerned with the use of the word "actuary" by pension consultants. He stated that we must be careful or we might create the dilemma where an actuary of an insurance company is prevented from using the title of his office, "actuary." What is really desired is to limit the right to assume the designation "actuary" in the consulting field to persons who have proven by some recognized measurable means their competence to engage in actuarial practice. He stated that the only uniform test that he was aware of is the actuarial program of the Society of Actuaries and the Casualty Actuarial Society. The examinations on retirement plans, social security, investments, group insurance are part of the fellowship examinations of the Society of Actuaries only and thus Fellows of the Casualty Actuarial Society or Associates of the Society of Actuaries have never been exposed or proven their competency in the field of pension planning. This seemed to limit the proof of competence among consultants to persons who have attained Fellowship in the Society of Actuaries, or in comparable bodies in other countries. Legislation along this line would be instrumental in making more of the people who embark upon the examination trail keep it up until they complete all their examinations.

In connection with topic 2(*b*), Mr. Grover stated that he felt strongly that Fellows of the Society of Actuaries should be permitted to represent their clients before the Internal Revenue Service in connection with problems involving pension and profit sharing plans. He felt that if permission were extended to non-Fellows it might be difficult to prove their competence. Furthermore, it might invite the opposition of lawyers unless we restrict the areas in which we can represent our clients before the IRS to those where we can insure at least a basic level of familiarity and competence. Mr. Grover pointed out that a short time ago a small client of his had a very interesting tax problem that was appealed to Washington for a ruling. Nothing was involved outside the area of pension plans but most of the material necessary in the presentation and discussion was of an actuarial nature. It was necessary for this small company to finance the trips of both an attorney and an actuary to Washington since the attorney was not qualified to handle the job and the actuary was not permitted to represent the client before the IRS. Mr. Grover stated further that when the present rules were formulated pension plans were fairly unimportant in the tax field. Now the situation is different. The time has come to request inclusion of Fellows of the Society of Actuaries in the category of permissible representatives. He also proposed that consideration be given to broadening the authorization to include Associates of the Society of Actuaries who have passed the Part 8 examination.

MR. G. E. IMMERWAHR, who had reviewed the work of many consultants while at the Bureau of Internal Revenue, sympathized with Mr. Grover's feeling that he should want to limit practice to Fellows of the Society, but felt that this would be a very hard requirement and one that would prove unworkable. He went on to state that he had come across several consulting actuaries, nonmembers of the Society, who were very competent people and whom he thought it would be most unfortunate to disbar from actuarial practice if a qualification of the sort suggested were set up. He stated further that he had also run across Fellows and Associates who were nonspecialists in the pension field and who did not possess the same competence in that field as some nonmembers he had known.

MR. C. A. ORLOFF agreed with the points made by Mr. Immerwahr and went on to state that he felt experience is a more important factor than technical training in determining qualification. A consulting actuary has a principal function of serving an employer. An employer who is in business has to exercise business judgment and because he does he is going to be more circumspect in the selection of his consultant than would be the case of an individual who does not have the facilities available to him. Mr. Orloff did not think it was important whether or not the actuary could represent an employer before the Internal Revenue Service.

DR. J. P. STANLEY objected to Mr. Grover's position on two categories. First, there is the moral element involved. The theory of such regulations really to a large extent involves violation of the personal liberty of the individual. The entire free enterprise system is based on the theory that the good will rise to the top and the mediocre and poor will fall to the bottom, and if this theory is believed in then there is no place for this type of legislation. Secondly, there are certain practical difficulties as mentioned by earlier speakers. Among them is that the considerable majority of practicing actuaries are not members of the Society and even of the members a vastly smaller number are Fellows of the Society. Dr. Stanley stated that he has the opportunity of observing at first hand the practice of many actuaries as he meets the majority of actuarial firms across the bargaining table. It gives him the opportunity to review the actuarial reports of many of these firms. He stated that, with all due regard to the capabilities of many Fellows in ordinary insurance business, the average Fellow of the Society is far less capable in the pension field than is the average nonqualified professional or practicing actuary that he meets. There are nevertheless, of course, many well qualified Fellows of the Society who are practicing as pension consultants, but among the vast body of Fellows of the Society that do not engage in this form of endeavor he stated that their knowledge in the pension field is virtually nil in many cases. Furthermore, there are relatively few consulting actuarial firms that have Fellows of the Society in any great number. In the city of Detroit, for example, at this time there are to his knowledge no Fellows of the Society. The considerable majority of the consulting firms in Detroit employ, either as partners or as employees, no Fellows or even Associates of the Society. The same may be said for other cities in the country. Nevertheless, he knows many of these gentlemen very well and would say that many of them with no qualifications of this kind do an excellent job and that legislation of this type is going to present problems that will be unworkable. It must be recognized that any attempt to introduce legislation of the type proposed by Mr. Grover would meet with the very great opposition, for understandable reasons, of these gentlemen. This has to be taken into consideration.

DR. A. A. GROTH stated that in Canada a pension plan valuation report must be signed by a Fellow of the Society of Actuaries if it is a self-administered or by an Associate if it is an insured plan. He went on to state that there are additional differences between U.S. practices and Canadian practices in regard to approval of pension plans. The approach of the Canadian Department is chiefly in regard to the soundness of the pension plan. They feel not as much concerned with tax deductions as with approving plans which they believe to be sound.

Dr. Groth went on to state that he felt there were two categories of consulting actuaries: consulting actuaries who are chiefly engaged in consulting practices for smaller life insurance companies and consulting actuaries who are engaged in pension plan work. He agreed with Mr. Grover that for the former group a Fellowship in the Society of Actuaries was important. However, in regard to consulting actuaries for pension plan work he agreed with Mr. Immerwahr and Dr. Stanley that many nonmembers of the Society of Actuaries were competent to practice in the pension consulting field. He did not feel that passing Part 8 would necessarily qualify anyone to consult on pension plans.

DR. C. H. FISCHER agreed with previous speakers in that he had met a number of highly capable people outside the Fellows of the Society of Actuaries. He felt it would be doing an injustice to deprive them of the right to do this pension work. However, he went on to state that he thought the problem needed a lot of study and that the public also needs protection against charlatans, and he added he had met a number of them as well. The public is not competent to distinguish between the charlatan who may call himself a pension engineer or specialist and an actuary. He stated that somehow we should let the employer know the difference and he believes that if the Society can't offer a solution, one state after another will come up with something like a CPA examination for pension actuaries. He stated that any solution should recognize the right of competent people, but cautioned not to forget we have to protect the public.

DR. N. A. MOSCOVITCH stated that the Conference of Actuaries in Public Practice decided a year ago to take up the question of the right of an actuary to represent a client before the Internal Revenue Service and the Secretary of the conference has had correspondence with the Internal Revenue Service but so far without results.

Mr. Ain agreed with Mr. Immerwahr and Dr. Stanley about the quality of work done by consulting actuaries other than those who are members of the Society of Actuaries and that such membership, as experience shows, is neither a necessary nor a sufficient condition for competency as a pension actuary. Mr. Ain went on to point out that actuaries, as well as anybody else of good moral character, can represent the clients before the Internal Revenue Service if they want to take an examination covering the Code. Mr. Ain suggested that we should ask the Committee on Practice of the Treasury Department to make available a more limited examination on those parts of the Internal Revenue Code dealing with pension funds, deferred compensation, and perhaps a few other relevant subjects, so that a man who practices in the field of pension funds may represent a client in that area without claiming to have knowledge of the entire Code.

MR. W. F. LUMSDEN agreed with previous speakers that we should have the right to practice before the Internal Revenue Service.

MR. HARWOOD ROSSER joined Dr. Fischer and Mr. Grover in emphasizing the need for some sort of solution to the problem concerning who can use the term "actuary."

MR. T. P. BLEAKNEY concurred on this point and added that the State of Washington has a law requiring that pension funds be valued by a qualified actuary if the state contributes money to the fund. The actuary is defined as an associate member of one of the recognized bodies.

Commenting on a suggestion from the floor that a committee be appointed to investigate possible limitations, not specifically membership in the Society, that could be set up for the use of the designation of "actuary," PRESIDENT W. M. ANDERSON felt that the consulting actuaries would be following the correct procedure in establishing such a committee to investigate regulations in regard to the use of the title of actuary.

MR. GROVER added that it was pleasing to hear it generally agreed that we have a problem and we should give it thorough study. The suggestion of the appointment of a special committee was perhaps the best product of the discussion, and, in fact, about the only positive contribution made.

He was quite appalled at the emotional, almost panicky, reaction to his proposal, almost as if it were an attempt to deprive certain speakers of their livelihood. Perhaps a more careful and calmer analysis of the suggestion would enable these people to realize that protecting the use of the word "actuary" does not prohibit persons from calling themselves "Pension Consultants," "Pension Engineers," "Pension Planners," etc.

He would like to add to his proposal a requirement of two years of consulting experience for a person to be able to call himself a "Consulting Actuary."

He thought we should take immediate steps to look into an acceptable solution in order to forestall 48 different laws in regard to licensing actuaries. His thought was to provide a basic test for an "actuary" that every state could use as a start so that "actuaries" need not take additional examinations.

MR. H. D. MORGAN set forth the reasons which he believes require the imposition of some limitation on the right to assume the designation "actuary" and outlined a possible procedure to be employed in evaluating an individual's qualifications. His remarks were restricted to the field of pensions and other employee welfare plans. He set forth three reasons for requiring some form of limitation and legal restrictions for the actuarial consulting professions, and for establishing a set of qualifications. These reasons were:

(1) In view of the fact that actuarial consultants deal primarily with the general public, it becomes necessary to protect the general public in order to assure them that fully qualified and competent actuarial advice is being obtained.
(2) A form of legal recognition and qualification would enable the actuarial consultant to appear before the Internal Revenue Service as the actuarial representative of the client.
(3) Legal recognition would in turn promote the sound actuarial operations of retirement plans. This could be accomplished by requiring that all actuarial reports submitted to the Internal Revenue Service be certified by a legally qualified actuary, which certificate may be accepted as presumptive evidence of the actuarial soundness of the plan.

Mr. Morgan went on to state that the major problem concerns the type of qualification which should be required of an individual in order for him to obtain legal recognition. He did not feel that membership in the Society of Actuaries was necessary nor that Fellowship was sufficient to fully qualify an individual in the actuarial consulting profession. The knowledge and skills obtained from the studies and examinations leading up to the Fellowship are extremely desirable and, in due course, through the force of public education and competition, he felt certain that the body of actuarial pension consultants who are also Fellows in the Society of Actuaries would prove their competence to such an extent as to possibly be favored over the group of actuarial pension consultants who were not members of the Society of Actuaries. However, unfortunately, it was essential to establish qualifications that obtain legal recognition in the immediate future rather than resort to the extremely lengthy processes of evolution. In order to obtain such desired results he would like to propose the following procedure: establish a Board of Governors sponsored by the Internal Revenue Service containing representatives from the Society of Actuaries, the Conference of Actuaries in Public Practice, the Casualty Actuarial Society, and possibly other interested actuarial groups. Such Board of Governors would be responsible for reviewing the qualifications of applicants and issuing a certification as to such qualifications. Mr. Morgan went on to state that a certification might be issued to those actuaries who could demonstrate adequate knowledge and competence in each of four major categories. The four major categories and possible methods which might be employed to demonstrate the existence of adequate knowledge were as follows:

(1) Actuarial Mathematics: Any individual who may have successfully completed a series of written examinations of reasonable difficulty, which covers the various mathematical courses required of a qualified actuary, would automatically receive credit for this first major category. For example, an Associate of the Society of Actuaries or of the Casualty Actuarial Society would automatically be credited with this category. Individuals who do not receive such automatic credit would be required to demonstrate to the Board of Governors that they have attained adequate knowledge and a reasonable degree of competence within this category. Such process of demonstration might, for example, take the form of a written and oral examination of reasonable difficulty.

(2) Internal Revenue Code, Regulations, etc.: A fully qualified actuarial pension consultant must necessarily obtain a high level of knowledge and competence with respect to those portions of the Internal Revenue Code which deal with pension and other deferred compensation matters, together with the Regulations, bulletin and various other Internal Revenue and Treasury rulings. The material covered under Part 8 of the Society of Actuaries' examinations barely scratches the surface of the huge volume of information required under this major category. It would be necessary for each individual,

regardless of his affiliation with any actuarial body, to demonstrate to the Board of Governors an adequate knowledge with respect to this major category. Again, the demonstration might take the form of a written and oral examination.

(3) Internal Insurance Company Operations: It is essential for all fully qualified actuaries to have a fairly intimate knowledge of the internal operation of insurance companies and a thorough knowledge of the methods employed to obtain gross premiums, nonforfeiture values, reserves, dividends, annual statement items, etc., together with insurance company accounting, insurance laws, etc. This type of knowledge is required in order to make reasonably accurate comparisons between insurance companies and between insured and self-administered pension plans. Again, it would be necessary to demonstrate to the Board of Governors that the individual does actually have adequate knowledge within this major category. Fellowship in the Society of Actuaries and possibly in the L.O.M.A. should automatically result in a credit to the individual with respect to this category while examination would be required with respect to other individuals.

(4) Pension Patterns and Other Practical Problems: In addition to the three categories specified above, a fully qualified actuarial pension consultant should be thoroughly familiar with various pension patterns and innumerable other problems which are an inherent part of the profession. He did not believe that an examination could be employed to demonstrate such knowledge and, therefore, the qualifications established by this fourth category should be met by a specified minimum number of years of actual consulting experience in the profession.

Mr. Morgan went on to state that he thought a committee should be established as soon as possible to investigate the entire matter. Such committee should meet with representatives of other interested actuarial groups and agree upon a proper procedure to recommend to the Internal Revenue Service. Such joint groups should then make every effort to influence legislation in accordance with this recommendation.

MR. D. C. BRONSON started discussion of topic 3 with a quotation from J. B. Maclean's *Life Insurance*, which stated with respect to the advent of more comprehensive and restrictive state supervision of insurance:

It may be noted that one of the immediate results of the widespread increase in state supervision and the consequent stiffening of requirements was the failure of a number of the small and weaker companies, some of which had been operating on unsound lines, but many of which were merely unable to comply with the strict requirements of the insurance departments. Many of the failures which took place in the period from about 1865 to 1885 were due to extravagance and inefficient methods, and some to dishonesty, but the largest number was due to the strict enforcement of state requirements, particularly regarding reserves and admissibility of assets.

Mr. Bronson stated that the topic under discussion might be considered as implying that noninsured pension plans are on the threshold of the supervision door which opened to the insurance companies many years ago. Mr. Bronson then reviewed the present relationship of governmental agencies to noninsured pension plans. He stated that at the state level there is section 200 of the New York Law, under which an uninsured plan could, if it wished, seek shelter (and supervision) in the office of the superintendent of insurance of the state. Very few plans have taken this voluntary action. Then he stated there are the recently enacted welfare plan laws of the states of Washington and New York. The former is quite loosely worded and unclear, but would seem to carry disclosure requirements and admit of quinquennial examinations. The New York welfare law calls for registration and reporting of those welfare plans (including pensions) which fall within its purview; and it includes the portent of departmental approval and supervision. However, under a ruling of the Attorney General of New York State, the scope of this act encompasses only negotiated plans, so that more numerous unilateral pension programs—whether insured or noninsured—fall outside of the legislation. The report made by the Martin House Committee had proposed a much more comprehensive coverage and this may well eventualize sometime.

Mr. Bronson went on to state that at the federal level there is the IRS interest in pension plans—limited thus far to concern as to discrimination, benefit integration and limitations on deductible employer contributions; there is also tax-free trust fund income for qualified plans. Other federal agencies have no direct functions with respect to pension plans. However, the SEC has a nominal interest under its investment registration functions, and agencies of the Labor Department, the Social Security Administration, the Civil Service Department and the Veterans Administration are all interested in the subject of pension plans generally, but at the present time none of them has a legislative function in that connection. Mr. Bronson added that the Douglas Committee in the last session of Congress studied the matter of welfare plans and was shocked by a few flagrant irregularities. Supported only by these few flagrant examples, legislation was introduced into the Congress which would require stipulated procedures for welfare plans—a welfare plan being widely defined to encompass about every type one can think of, insured and noninsured, unilateral and multilateral, even encompassing group life insurance. The bill would have all such plans register if 25 or more employees are covered, and with 100 or more employees covered, full disclosure would be required. However, no federal bill introduced, as far as he was aware, would set up machinery for examination and supervision of plans. In the Douglas Committee's bill, the registration and reporting would be made to the SEC. An Advisory Council would be established reporting to the SEC and one may visualize before long that proposals would be made for greater regimentation at the federal level. Mr. Bronson stated that he was in the process of writing a monograph on actuarial soundness in pension plans. In this book he has a chapter headed "Legislated Actuarial Soundness," which he had drawn on for this discussion. He pointed out that some means must be found for pension plans on the "middle ground" where marginally funded provisions are being made. He felt provisions should be made for these plans to continue on an experimental basis without being legislated into frustration. All pension efforts might not be sound at the start but the fact is that legislation and bureaucracy can hamper effort and kill embryonic growth. This happened in the life insurance company as per his quotation from Maclean.

If governmentally mandated actuarial criteria and rules are scheduled to appear in this country for insured deposit administration and trust fund pension plans, it will not be caused, in his opinion, from defects in the development to date of these plans and trusts. The stimulus for such legislation lies in a few flagrant examples of fraud and mismanagement in welfare trust funds, mostly not even connected with pensions. All but a relatively minute number of pension plans have, as far as he has observed, taken seriously the aim for actuarial soundness. This is not to say that by a reasonably conservative definition they have all achieved actuarial soundness or a comfortable funded ratio of fund assets to accrued liability, but most of them hope to reach such a goal; any more "law" or regulation in the picture should not circumscribe these efforts. Mr. Bronson went on to point out that a pension plan which is trusteed is not like an insurance contract. A pension plan is more in the nature of a statement of intention and a set of rules for implementing the intention into performance. The question is, then, why intention—unilateral or under union agreement—should, by law, either be denied expression or be forced into a different mold or straitjacket on the grounds that it is not being implemented under a rigid set of rules laid down by statute and interpreted by regulation and individual official judgment.

Mr. Bronson cited the case of United Mine Workers Pension Fund. It is probable that by no one's definition of actuarial soundness would this program conform. It makes no claim to being actuarially sound and may well run into trouble some day; in fact, he believed that the "anthracite fund" already had. Statutory insistence on actuarial soundness would have prevented tens of thousands of aged miners from receiving pensions.

Mr. Bronson personally felt that it was better to permit a considerable degree of freedom in the determination of contributions and reserve standards for these plans rather than to insist on some fairly strict statutory actuarial soundness from the start of a pension plan. However, he did suggest sufficient public disclosure to prevent an employer or joint pension fund from either misdealings or claiming actuarial soundness in absence thereof.

Mr. Bronson continued by stating that in any event it should be impressed upon those who will deal with regulatory questions that there is a vast difference between (1) the strictures necessary for the insurance companies to follow in order to implement their "guarantee" and (2) any rules on actuarial soundness for the noninsured type of plan. The latter types does not, and, structurally cannot, offer that sort of guarantee. Actuarial soundness—whatever it means—does not mean a "guarantee" but sometimes this is read into it. Actuarial soundness is a characteristic of orderly planning and funding, not the U.S. Treasury.

MR. G. A. COOKE outlined the current situation in Canada. For consideration in the actuarial operation of self-administered retirement plans, he referred to the rules set out in the Statement of Principles and Rules Respecting Pension Plans issued by the Taxation Division of the Canadian Department of National Revenue, and referred particularly to Parts 6(a) and 8(a) of the Rules. He stated that there was no indication that the Canadian Authorities planned to change either or both of these two Rules.

With reference to the financial operation of these plans, he referred to Part 16 of the Rules. He mentioned the decision of the Canadian Government as stated in the 1956 Budget Speech of the Minister of Finance, to remove the percentage limits relating to equity investments previously in effect. He anticipated that this would require an amendment of Part 16 of the Rules, which has limited the investment of funds of self-administered retirement plans to those authorized under the Canadian and British Insurance Companies Act. Currently, it appeared that there would be less rather than more supervision of the investment operations of these plans for reasons that perhaps were political and practical. From the political standpoint, it appeared that the Government did not wish to accept the responsibility of the financial soundness of these plans and, from the practical standpoint, it would be difficult to obtain the staff necessary to do a proper work of supervision and expensive to provide sufficient supervision to insure effective and continuous control. The Canadian insurance companies were not in agreement with the Government's position and representations for more supervision might be made.

In conclusion he suggested consideration of the following reasons why self-administered retirement plans perhaps should be subject to careful supervision.

(1) The public interest requires that some restriction be placed on the investment of funds entrusted to private trusteeship, in which funds a large and ever increasing segment of the public has a direct welfare interest.
(2) More particularly, many of these uninsured pension plans require or permit contributions by employees and the accumulated contributions of the employees should be protected.
(3) Employees expect to receive, and rely on, the benefits offered or promised by uninsured pension plans, including those where no employee contributions are required, even though the benefits may not be guaranteed. Many do not appreciate the risks involved in uninsured as compared to insured plans. Many have come to consider employer contributions to pension plans as deferred salary or wages and consider such contributions to belong to the employees. Furthermore, tax exemptions are granted to employer companies conditional on the contributions to pension plans being made irrevocably for the benefit of the employees. Therefore, employees will expect that reasonable protection of their interests will be given through the supervision of the pension plans.
(4) Some of these uninsured pension plan funds may be managed less directly and continuously by staffs trained in investment administration and life contingencies.

MR. V. L. LAWSON stated that the tax regulations in Canada require that a self-administered retirement plan, except when the benefits are provided on a "money purchase" basis, must have annual future service costs determined by actuarial examination not less frequently than quinquennially. These very brief and very broad requirements are the only published requirements relating to the frequency and scope of actuarial valuations of a self-administered plan.

Mr. Lawson was sure that when these regulations were drawn up by the Department of National Revenue in consultation with the Department of Insurance of Canada they were intended as minimum rather than adequate standards of actuarial performance in this area. He doubted whether any consulting actuaries would consider that an actuarial examination once every five years of a self-administered retirement plan would be adequate, especially if such an examination indicated only the accrued liability and annual cost for future service benefits for the succeeding year.

Mr. Lawson went on to state that at one time the life insurance companies in Canada were relatively free from regulation, but because of abuses are now subject to considerable regulation. He did not feel that we had an immediate concern that this situation may be paralleled in the field of self-administered pension plans in Canada, but from the long term point of view he wondered if there might not be advantages if consulting actuaries through association could place on record their collective views as to what might be considered adequate standards of performance in valuing self-administered pension plans as to, first, the frequency with which the actuarial valuation should be performed and, second, the scope of an actuarial valuation. He felt that such collective recommendations would undoubtedly carry more weight than a similar recommendation made by an individual consultant and could hardly fail to produce long term beneficial results.

DR. STANLEY, in discussing topic 4, stated that the UAW has in excess of 3,000 collective bargaining agreements providing for sickness and accident insurance. Very few of these are self-insured. If there has been any trend in this area since 1954, it has been in the direction away from self-insurance of such plans. Dr. Stanley felt that there were definite advantages in having a third party administer these plans. He admitted that some savings in administrative expense might be accomplished through self-insurance such as elimination of premium tax and reduction of the insurance companies' retention. However, he stated that in many cases such savings are relatively small and can be completely counteracted by ineptitude in the handling of the program by either the union or the company. He stated further that the International Union is, generally speaking, opposed to such plans on policy grounds.

MR. P. C. BASSETT discussed a report he had prepared for a company which was interested in at least investigating the advisability of self-insuring their accident and sickness benefits. In connection with this report he had written to several State Insurance Departments requesting their advice in connection with the establishment of a self-insured accident and sickness plan. In the many important states, such as New York, New Jersey, Pennsylvania and Michigan, it was found that the employer would, in effect, have to establish an insurance company. This in itself could be so expensive as to render self-insurance impractical. In connection with the possible savings under a self-administered plan the following statements were made:

a) There is probably little likelihood of savings in claim settlements and it is more likely that this cost will be increased. If claims are settled locally by company men the tendency might be to be more lenient than if the claims were settled by a third party.
b) Premium taxes would be direct savings unless the company were required to establish an insurance company under the state regulations.

c) Cost of settling claims would not vary greatly. The insurance company costs in this case had been less than 2% of the net premiums. The insurance company had an experienced staff operating throughout the nation whose full-time job was claim settlement and investigations. If handled by the employer it would have to be a part-time job for many of its local men.

d) Commissions and all other items included in the retentions came to 3% of the net premium. Any savings here would have to be reduced by any general overhead expenses of the employer and any premium he would pay to reinsure excess claims. At the outset the employer felt he should insure any claims in excess of a stated annual amount. Thus the possible savings in cost to this employer under a self-administered plan appeared to be small indeed, if any.

Finally, the report pointed out such miscellaneous items as the services performed by the insurance company in regard to consulting advice, cost of proposed variations, etc. Also, it was pointed out that the plan had been negotiated with the union under which the agreement called for the establishment of a hospitalization and accident and sickness plan with an insurance company. Thus it would be necessary to reopen the union agreement for a self-administered plan.

MR. T. P. BOWLES, JR., stated with reference to topic 5 that he was convinced that generally the actuary who has not been exposed to public practice is not aware of the scope of the consulting actuarial services rendered to or required by life insurance companies. He believed that the actuaries would be surprised to learn that the consulting actuarial staff must, of necessity, be prepared to cope with almost every phase of company management problems, such as agency, actuarial, underwriting, accounting, organization, management, and investments. Thus, the consulting actuary in life insurance company work becomes almost of necessity a management consultant. Recognition of this condition makes it easier to understand the problems currently faced by the consulting actuaries in this field. Mr. Bowles went on to state that the major problem facing the small and medium size companies is the acquisition of quality business in quantity and thus the major problem is agency but there are many variations and other problems involved. Mr. Bowles felt that the fundamental problem is that the consulting actuary should assist the company in setting their company objectives, establishing a pattern of growth, and setting up the goals that the company wants to reach. Fiscal planning is also important as well as control of the drain on the surplus of the company. Then there is the problem of establishing effective tools for management controls so that the executives can have some techniques whereby they can know where they are going and whether or not they are making the progress that has been planned for them or that they have planned for themselves. The consulting actuary must aid in the agency problems which come to the forefront very greatly in the small and medium size companies. This includes such problems as recruiting, selection, training and financing of agents, and special policies with a sales appeal. Advice must also be given to develop a sound functional organization, including efficient home office procedures. The consulting actuary must also advise on the investment policy of the company. Questions have arisen in regard to mergers and consolidation and even insolvencies. Thus the actuary, as a consultant for insurance companies, has broad over-all problems to meet which provide a challenge to his profession.

MR. R. W. SHOPE agreed with Mr. Bowles' remarks that the consulting actuaries for insurance companies have now taken on a much broader aspect than was originally contemplated. He stated that they are consultants to each department and division of the small and medium size insurance companies. He stated further that some of the more interesting current problems faced by consulting actuaries are those related to the current trend among small companies to merge, consolidate and purchase other small companies. The primary purpose is to effect economies and develop a larger agency staff as well as larger insurance in force.

MR. DYER, introducing topic 6, briefly summarized the work of the Committee on Experience under Self-Administered Retirement Plans. He stated that the Committee was composed of people in consulting work who were generally too busy to do an effective job; however, they hope to have a report for publication next year. Mr. Dyer asked that any in the consulting field who had experience that could be used by the Committee should forward such data to him.

MR. K. H. ROSS stated that he thought it would be very helpful if a library of standard rates of mortality, turnover, disability, salary increases, retirement and the like could be established for comparison purposes on self-administered plans. Provision should be made for various occupational groupings and for union and nonunion employees. He felt it would be helpful if some experience studies under individual plans could be published, provided the volume of lives exposed was sufficiently great. Mr. Ross went on to comment about the actual report submitted by the special Committee which appeared in 1953. He cautioned against pooling the experience on retired lives because of the tremendous variations in mortality which occur under plans which have compulsory retirement age as opposed to those which have optional retirement age. He felt that data on public employee plans should be available from the various states in sufficient volume to give satisfactory results.

MR. F. P. SLOAT started the discussion of topic 7 by stating that a consulting actuary should put his emphasis on consulting and not selling. He felt that the obligation to the client was to educate the client and to clarify things for the client and see that all factors are properly taken into account. It did not seem to Mr. Sloat that a consultant should be giving unqualified recommendations on any medium of funding to a client but rather that he should make a thorough study and analysis to enable the client to make the proper choice. Briefly stated, it seemed to him that the minimum and maximum ranges of the consulting actuaries' activities tend to converge. He has a minimum obligation to see that the client is completely informed and he has a maximum obligation to let him make his own decisions.

Mr. Sloat went on to state that if a consulting actuary is specializing in one medium of funding for one of a number of reasons—through background, conviction, or otherwise—he possibly isn't a true consultant in that particular area. This he feels is all right if the client recognizes the situation, but the consultant should not let the client think that he is giving him education on all sides if the person who is doing the educating is directing the client's thoughts entirely in one direction. Mr. Sloat felt that similar considerations apply to changing the funding medium and to investments. In the latter field the actuary is also called upon to advise and educate rather than steer in any one direction. Obviously, the actual investing is not in the hands of the actuary but is with the trustee of the funds. Further, the actual work of doing the valuation of investments is the job of the trustees.

MR. B. R. THOMAS agreed with Mr. Sloat that in regard to funding medium the actuary's responsibility lies in pointing out the advantages and disadvantages of each medium. This was particularly so if a plan was first being adopted. If the employer had already decided on a funding medium the responsibility of the actuary would then be merely to point out any obvious problems that might arise. Mr. Thomas also raised the question if there was any responsibility on the part of an insurance agent or broker who acts as a consultant and sells the insured approach.

Mr. Thomas felt that the consulting actuary had a particularly high degree of responsibility in connection with a plan that has been in operation for a number of years under one funding medium and the employer has requested a review of his entire situation.

In regard to the investments of assets, Mr. Thomas said this was left entirely up to the trustee, but in the valuation of assets he would recommend a method that did not produce substantial variations in the asset values from year to year.

MR. K. P. GIBSON thought it would be well for the actuaries to concern themselves about the method used in valuing the assets of a trust fund. He pointed out that many of the trust funds have been using cost where there are substantial equity investments and the market value greatly exceeds the cost value. He felt the actuaries should be concerned with the method of valuing these assets before other people become interested who might not be as well qualified to understand the long range implications of these investments.

Mr. Gibson opened the discussion of topic 8 by stating that he thought that the minimum obligation of the actuary must necessarily be to inform the client about everything he can possibly understand. He pointed out that the ultimate responsibility for costs and the liabilities in regard to a pension plan rests with the employer. The actuary is in a position of making recommendations which many employers accept without question. However, other employers are greatly concerned with what their costs are, and they concern themselves with the details of each aspect of the actuarial methods and actuarial assumptions. With employers such as this the actuary must depend upon his powers of persuasion in order to have some reasonable set of cost assumptions with some clients. The actuary is reluctant to take the drastic step of refusing to have his name associated with the costs for a plan of a client. However, since the employer hires the actuary it is the employer's responsibility in the final analysis.

Mr. Gibson went on to state that even with companies which blindly accept the actuary's recommendations he thought it was still necessary to teach these employers facts concerning actuarial methods and assumptions. It should be stressed to such employers that the actuarial costs are merely appraisals or estimates of the costs of a plan. The actuarial cost calculations determine the incidence of the costs that the employer will have to pay if he carries a definite benefit program. Mr. Gibson felt the actuary must inform the employer what the cost of his plan would be under certain assumptions as to future experience, particularly in regard to periods of inflation or deflation, or during periods of growth in the company or during periods of decline. He felt this was important for the employer who basically was disinterested in the actuarial cost calculations, because at any date in the future he may become vitally concerned. The employer in the second category who is interested in all the actuarial assumptions and methods will bring forth all the questions that should be answered by the actuary.

MR. IMMERWAHR stated that during his experience with the Pension Trust Division with the Bureau of Internal Revenue he observed the work of a large number of the leading pension actuaries and consultants, and as might be imagined witnessed a wide variation in methods of operations, calibre of work, and forms of presentation of results. During this time he became particularly aware of the need for skillful educational work on the part of consulting actuaries in conveying information to their clients. He believed that many clients were completely bewildered by the lack of explanation of actuarial methodology and terminology. He felt that some really constructive work could be done in making an actuarial report more understandable to the clients.

MR. THOMAS pointed out that the smaller clients generally had no one in their organization particularly interested in the actuarial phases of their pension plan and therefore relied completely on the actuary's advice and recommendations. However, the larger companies often had officials more interested in the actuarial aspects of their pension plan and it was necessary to make a full and complete presentation to comply with their wishes.

MR. H. E. BLAGDEN related the experience he had had recently with one of his clients. This client had a typical contributory deferred annuity unit credit plan with a five year waiting period. Because of a change in the union representation the plan was discarded in favor of a typical Steel Pattern Plan. The company had decided that the Steel Plan would be no more expensive than the plan they had had previously. Mr. Blagden was then called in to estimate the cost of the new plan and was criticized when the cost turned out to be considerably higher than the previous plan. It seems that the company had already decided that the two plans should cost the same and that Mr. Blagden should make them come out in this fashion. Mr. Blagden was able to bring the first year cost down to the same level but pointed out emphatically that the Steel Plan was more expensive and eventually would cost more. He felt that acting as a consulting actuary he was morally obligated to make this clear.

MR. LUMSDEN replied to Mr. Blagden that there are two points that should be taken into account in appraising the costs of the Steel Plan. The first is that a salary scale of the usual type with increases in salary up to age 65 is not appropriate. Studies have been made which show that the salary scale for steel workers has a hump at about age 50 or 55. His second point was that we should not use inflationary factors in determining a salary increase in the future. Further he pointed out that the Internal Revenue Service has ruled that inflationary increases in salary scales cannot be used directly in the valuation of a pension plan. Another point that Mr. Lumsden made was that practically all of the employees now get the minimum benefit under the plan, as few employees are earning enough salary to qualify for the 1% per year of service benefit.

MR. S. J. KINGSTON stated that one of the factors which should be considered before arriving at a determination of the minimum and maximum obligations of a consulting actuary is a study of the varying backgrounds of the consulting actuaries now practicing. Since their backgrounds are so diverse, it is only natural that their recommendations based on the same set of facts would be likewise diverse, in all honesty. For example, some consulting actuaries are themselves insurance brokers, or salaried employees of insurance brokers, and it is only natural that actuaries of this background would incline toward insured pension plans. On the other hand, some consulting actuaries are set up to handle trusteed pension plans only, and it is to be expected that these actuaries would incline toward trusteed pension plans. Some consulting actuaries work on a part-time basis, their regular jobs being with insurance companies, and as a result these actuaries may incline toward insured pension plans because of a relative unfamiliarity with trusteed plans. Some consulting actuaries perform their consulting services in their capacity as home office employees, particularly on deposit administration plans. All of these points should be considered in trying to arrive at a determination of the obligations of the consulting actuary.

DR. GROTH stated that he had always understood that the cost of a pension plan is determined entirely by the benefits paid under the pension plan. The different actuarial methods and assumptions determined only the cash requirements or cash outlay and this should be kept in mind in discussing costs with the client.

MR. AIN proposed several questions. He wondered if there was an obligation on the part of the actuary to tell the client what were the terms of the plan as he interpreted them for the basis of his valuation. Also, how far should the actuary go in explaining the methods and assumptions? Should he set forth the full active life service table or should he just say that he picked a proper withdrawal rate? Should the actuary give the client the salary scale used or just tell him that he used an appropriate rate for that company? Further, should the consultant explain to the client all the different possible methods of valuing a pension plan before selecting the proper method to use for a particular case? Mr. Ain thought the proper thing for an actuary to do was to determine in his own mind what the proper method would be and then if the client questioned the method he should explain why he used that particular method. Mr. Ain also asked if there are not further obligations on the part of the actuary in presenting actuarial costs. Should he think only of his client or are there obligations in respect to other people such as the participants of the plan or other third parties?

MR. W. F. MARPLES opened topic 9 by observing that the statement had been made that, since all plans are subject entirely to their own experience, the experience of any one plan is not good as the basis for establishing any other plan. This cannot be followed to its logical conclusion or we would rarely be able to make a cost estimate; hence we have to use experience based on similar or similarly situated plans in determining a basis for the current plan being valued. The experience under a plan for salaried employees would differ materially from the experience of a wage plan. The location of the plant as well as the type of activity might affect the mortality experience.

When it comes to the determination of the actuarial methods, Mr. Marples agreed with previous speakers that the client had to be "educated" step by step. He felt it was perfectly appropriate for the actuary to use whatever method he thought best and only to explain this method at the outset; other methods could be discussed when the client was ready for a critical examination of the various methods that could be used.

Mr. Marples went on to say that he did not like to hazard a guess as to what the effect of the new Social Security Benefits for disability would be in regard to the costs of their pension plans. The crux of the matter was the question as to whether an employee retired on a disability pension from a plan would qualify for a Social Security disability allowance. In many cases he would not; and the immediate problem was to determine a proportion qualifying, for use as a valuation assumption. It might be that in the long run the possibility of qualifying for the Social Security benefit would make employers review their policies on disability retirement in order to conform as nearly as possible to the Social Security certification.