

# TRANSACTIONS

OCTOBER, 1958

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## ADDRESS OF THE PRESIDENT, HENRY F. ROOD

### RECOGNITION OF ACTUARIES

**I**N DELIVERING an address of this sort, your President realizes that, although he may assert only his own views, they are likely to be looked upon by some as an official statement. I want to emphasize that the following comments are purely personal and do not necessarily reflect the views of any other members of the Society.

The lives of some 117 million persons in the United States and Canada are insured by life insurance companies. Approximately 18 million are depending on private pension plans as a source of income in retirement. The combined assets of the life insurance companies and private pension plans in these two countries exceed \$150 billion. What is our responsibility as individuals and as members of the Society of Actuaries to see that the hopes and plans of these millions of citizens are not frustrated because of pseudo-actuarial practices that are unsound? In other words, how can we see to it that an employer or client will receive the benefit of the high standards of competency and conduct expected of an actuary?

We may recruit and train enough qualified actuaries to meet the needs of our people, and we may require our members to meet strict standards of education and professional conduct, but is that enough? Must we not also educate the public to recognize qualified actuaries? Should we go even further and advocate governmental licensing or certification of actuaries?

During the last decade there has been a tremendous increase in private pension plans. Many firms have been formed to advise clients with respect to these plans and some list themselves as actuaries. A number of these firms are well staffed with experienced actuaries, but others are not. How is an uninformed client to know whether he is obtaining the services of a qualified actuary?

I do not mean to imply that all members of the Society are fully qualified in all phases of actuarial science, or that all others are completely unqualified. There are many nonmembers who, after years of experience, have acquired considerable skill in certain actuarial matters, particularly

in the pension field. On the other hand, many of us whose responsibilities have largely been in the ordinary life insurance field would be untrained to advise on pension matters without considerable study. However, I think nearly everyone would agree that a Fellow of the Society has a depth of understanding of actuarial science that is lacking in many of those who have qualified themselves, in limited fields, by experience only.

The question of legal recognition of actuaries can no longer be ignored. The millions of people involved and the immense size of the assets of our life insurance companies and pension funds dictate protection from any possibility of unsound actuarial practices. Others are becoming concerned over these matters, and the members of the Society of Actuaries have a responsibility to attempt to find a solution.

Recently the question has been brought into sharp focus by the passage of disclosure laws in connection with welfare and pension plans. Already six states and the Congress of the United States have enacted such legislation. A primary purpose of these laws is to prevent abuses in the administration of such plans. It is hoped that this will be accomplished by publishing complete reports on income and disbursements. Most of these laws require that the reports be audited by certified public accountants.

The Federal Welfare and Pension Plans Disclosure Act requires that the administrator of a plan sign and publish an annual report, the information therein to be "sworn to by the administrator, or certified to by an independent certified or licensed public accountant." The information required for funded pension benefit plans includes "the type and basis of funding, actuarial assumptions used, and the amount of current and past service liabilities," which information I consider an actuarial report. There is no requirement, however, that such an actuarial report be made by a competent actuary.

The Welfare and Pension Plans Disclosure Bill (S-2888) was first brought to my attention in May of this year and was discussed with the Board of Governors at its June meeting. I was instructed to watch the Bill and take such action as seemed desirable. After consultation with members of the Society in Washington and some of the staff of the American Life Convention and the Life Insurance Association of America, it appeared that the Bill would not be reported out of subcommittee and that we would have time to take deliberate action in drafting an amendment which would require that any actuarial report be signed by a qualified actuary and would contain a suitable definition of "qualified actuary."

Early in July, I was notified that the Bill was likely to receive favorable

consideration. I immediately wrote to Mr. Barden, Chairman of the House Committee on Labor and Education, pointing out certain deficiencies in the Bill and asking that the Society be permitted to appear at any hearings that might be held. Unfortunately, the pressure for passage of the Bill was so great that a modification of it was reported out without hearings and passed by Congress shortly before adjournment. It contains no reference to actuaries.

Acting on my behalf, Mr. Dorrance Bronson discussed the proposed act with various senators, congressmen, legislative assistants, and committee counsels. Several members of the Conference of Actuaries in Public Practice were also attempting to secure modification of the proposed legislation and we worked closely with them.

An amendment was suggested to the Senate Committee on Education and Labor and to the members of the Joint Conference Committee appointed to iron out differences between the Senate Bill and the House Bill, but it was too late to receive favorable consideration. However, the Conference Report did include the following paragraph:

The conferees in considering the requirement in the House amendment that all annual reports include the actuarial assumptions relating to the particular pension plan agreed that since actuarial assumptions of pension plans are generally highly technical and exceedingly broad, for the purpose of this act it should surely be sufficient to make available the most recent applicable actuarial report by the consulting actuary of the plan.

The House report contains similar language.

At the June meeting, the Board also authorized the appointment of a committee to investigate the question of possible certification or licensing of actuaries. Such a committee was appointed under the chairmanship of Mr. R. A. Hohaus.

About the same time, the Pension Research Council of the Wharton School of Finance and Commerce undertook to inquire into the security behind anticipated benefit rights under private pension plans to the end that benefits under such plans will become a more significant and dependable source of old-age economic security. One of the topics of this study deals with standards of actuarial soundness and with the certification of solvency by accredited public actuaries and accredited public accountants. I understand that standards of accreditation and possible accrediting agencies will be studied. This report should be of great assistance to our committee.

Let us consider the various possibilities of laws with respect to qualified actuaries. They seem to fall into the following categories:

(1) Requirement of an actuarial certificate signed by a "qualified actuary."

(2) Requirement of an actuarial certificate signed by a "certified actuary."

(3) Requirement of a license to practice actuarial science.

Under the first category the various states and the Federal Government might require that all annual statements of life insurance companies and valuations of private pension plans be certified by "qualified actuaries." Presumably, "qualified actuaries" would then be defined either by law or by regulation.

The second suggestion would require actuarial certificates attested to by "certified actuaries." According to Webster, certification is a document certifying that one has met requirements of a course or school. It is in the nature of a diploma. Presumably a government agency would certify an individual who met its prescribed standards of professional knowledge and would publish lists of certified actuaries. The standards might be based on examination, education, or experience.

There would be no prohibition of other persons calling themselves actuaries and practicing actuarial science, but such persons could not use the title "Certified Actuary," nor could they furnish actuarial certificates signed by a certified actuary as required by law.

Under the third plan, a license would be required before a person could list himself as an "Actuary" or could practice actuarial science. Again referring to Webster, we find that a license is a formal permission from authorities to carry on a "business" otherwise illegal. Consequently, a license is a privilege from the state. It confers authority to do what would otherwise be unlawful. Such a privilege may be allowed to continue indefinitely, may be renewed periodically, or may be revoked. Frequently, a fee is charged.

Many professional men, including doctors, lawyers, and engineers, are required to have state licenses to practice, while others, such as accountants, may be certified.

Whether an actuary is to be "qualified," "certified," or "licensed," the Federal or state authority must have some means of determining that he is competent to practice actuarial science. The following methods, or a combination of them, might be considered:

(1) Qualified by membership in a professional body recognized by statute (for example, membership in the Society of Actuaries).

(2) Qualified on the basis of education and experience.

- (3) Qualified on the basis of examination given by governmental authority.
- (4) Qualified on the basis of examination given by governmental authority but with examination set and graded by a recognized professional body.

The first suggestion, that actuaries be qualified on the basis of membership in a private actuarial organization, is the method employed in Canada and Great Britain. The Institute of Actuaries and the Faculty of Actuaries both accepted the responsibility of qualifying actuaries in England, Ireland, and Scotland many years ago and this practice has been followed for nearly 75 years. In 1919 the same philosophy was adopted in Canada with respect to fraternal insurance.

The idea of an actuarial certificate originated in England as early as 1819 when the legislature required that tables of Friendly Societies' payments and benefits be "approved by two persons at least, known to be professional actuaries, or persons skilled in calculations as fit and proper."<sup>1</sup> The preamble to the Act indicates that part of the purpose was to protect policyholders "against fraud or miscalculation."

It is doubtful that the people of the United States would permit a private organization to determine who might earn his living as an actuary. Certainly there would be a great deal of opposition to such a proposal from those now practicing actuarial science who would fail to qualify. Men who have completed certain university courses in actuarial science, or who have many years of experience, particularly in special lines, would have a strong argument against such a procedure.

One solution might be to offer membership in the Society to all persons qualified by education or experience. There might be a special class of membership such as "Affiliated Member." Perhaps this would take care of all such persons. Such a procedure was followed by the Institute of Actuaries at the time it received its Royal Charter in 1884. All members of the Actuaries Club were granted Fellowships in the Institute, thus removing the opposition to a charter which had existed for more than thirty years. It should be pointed out, however, that the members of the Actuaries Club were all outstanding actuaries.

There would be at least two objections to this suggestion. Many Fellows and Associates who have obtained membership by examination would understandably object to permitting a great influx of new members without examination.

<sup>1</sup> See *JIA* III, 12.

The other problem would be to decide who was qualified for admittance to the special class of membership. Should all those who call themselves actuaries be accepted? If not, where would we draw the line? The actuarial courses offered by the universities are not identical and some students have taken some, but not all, of the courses. Can we say a man is qualified after a certain number of years' experience, or is it possible to define his abilities by his position in his firm? For example, could we accept senior partners of consulting firms and those with actuarial titles in life insurance companies, excluding actuarial clerks; or could we accept those who can show they have been the recognized actuary of one or more companies for a stated period of years? The problem is difficult of solution.

Under the second suggestion, anyone who met certain specified conditions would be considered a qualified actuary. These might require merely that the applicant possess good moral character and meet certain educational, training, and experience requirements.

In many professions, after certification or licensing started in this fashion, the requirements were gradually stiffened. Such a plan would offer a means of controlling those who are practicing actuarial science and, over a period of years, might develop into a satisfactory program. There is a danger, however, that some unqualified actuaries would be included at the beginning, and they might do much damage if their actuarial opinions were unsound. The fact that such persons had legal recognition might, perhaps, make them acceptable to prospective clients who now might look for an actuary with some professional standing such as Fellowship in the Society.

In connection with the Federal Welfare and Pension Plans Disclosure Act, the suggestion was made that the term "qualified actuary" mean a person who demonstrates to the satisfaction of the administrator of the employee pension benefit plan that he meets such standards for actuarial practice as are established jointly by the President of the Society of Actuaries, the President of the Conference of Actuaries in Public Practice, and the Chief Actuary of the Social Security Administration of the Department of Health, Education, and Welfare. There is some legal precedent for such a plan, as the Federal law provides for a Board of Actuaries to advise on the administration and rate structure of the system of joint and survivor annuities for retired members of the armed forces and provides that this Board shall be composed of "the Government Actuary, the Chief Actuary of the Social Security Administration and an actuary who is a member of the Society of Actuaries."

*A combination of the first two methods whereby all Fellows of the*

Society be accepted and others be qualified by education and experience appears to have some possibilities. Under this plan, the Federal or state authorities would have the power to determine who met the definition of "qualified actuary." If the statute specified that all Fellows of the Society and those Associates with perhaps 5 years' experience were automatically qualified, this would serve to protect our members and give recognition to the Society. Moreover, it would remove the objection that a private organization determined who could practice actuarial science. The Federal or state government could then establish such other standards as were deemed satisfactory. It is likely that most competent persons now calling themselves actuaries would be qualified, but that stricter standards would be recognized for those desiring to be qualified in the future. In time, it is possible that Fellowship in the Society might, for all practical purposes, be the only standard accepted.

This is essentially the plan followed in South Africa, where every insurer must appoint an actuary, the appointment being subject to the approval of the Registrar of Insurance. An insurance company may appoint as actuary any person who is a Fellow of the Institute, the Faculty, or the Society of Actuaries, or any other person who has been approved by the Registrar as having sufficient actuarial knowledge. The actuary is required to attest certain statutory returns prepared by the insurer and, in addition, is obliged to report to the Registrar any irregularities in his company's business which have not been corrected to the actuary's satisfaction.<sup>2</sup>

The third suggestion seeks to qualify actuaries by examinations given by the governing authority. This is similar to the licensing of doctors and lawyers who must pass their medical board or bar examinations. Civil service employees also use the examination procedure.

Under this plan, the government examinations would supplant those of the Society and the standards of qualification would be determined by governmental authorities. It is doubtful that they would be any more rigorous than the Society's standards and conceivably they might be much less. Also, unless the examinations could be given by the Federal Government, which is not the case for other professions, the standards might differ by state. This would cause problems to those life insurance companies and consulting actuaries that operate in more than one state. In this respect, actuaries are quite different from many other professional men, such as physicians, who normally practice in only one state, and, therefore, need be licensed in only that jurisdiction.

The fourth proposal is similar to the plan used successfully for many

<sup>2</sup> See *JIA-SS* Vol. 14, 1957, p. 351.

years by the certified public accountants. For this reason, it is instructive to review their procedures.

The American Institute of Certified Public Accountants has worked for the establishment of uniform standards for examinations for accountants throughout the country. At the present time, there is a plan of cooperation with the state boards of accountancy under which the examinations are prepared by the Board of Examiners of the Institute. This plan is in use by all of the states, the District of Columbia, Alaska, Hawaii, Puerto Rico, and the Virgin Islands. Each state board determines whether its candidates pass, but most of the states avail themselves of the Institute's grading service.

If such a plan could be worked out with the various states, it would have many advantages. The Society would establish the standards of qualification for actuaries. There would be uniform standards in all states and a degree, such as "Certified Actuary," would be recognized as the hallmark of a qualified actuary. The Society would continue to devote its attention to the education and training of actuaries, and to the holding of meetings at which papers would be presented and discussions held. It would also maintain high standards of professional conduct.

Under this or any of the earlier plans described, it would be necessary to recognize the rights of those nonmembers who have served the life insurance companies and the public competently for many years. None of us want to deprive these people of their living or destroy their professional relationship with their employers or clients.

I believe, therefore, that any plan should recognize not only membership in the Society but also that group of persons who are qualified as actuaries by experience. It would take a great deal of study, patience, and tact to select those persons who are qualified by experience, but the results would be well worth the effort.

I also feel that, after several years have elapsed, we should seriously consider inviting all such persons to join the Society, probably as "Affiliated Members" and perhaps with some designation of the special fields in which they have demonstrated their proficiency. This program would enable all "qualified actuaries" to belong to the same organization, would strengthen our profession, and would make all of us better actuaries.

There are many questions which I have not attempted to answer. Perhaps a few should be mentioned.

- (1) Should company actuaries and those engaged in public practice be qualified on the same basis? Company actuaries are already indirectly controlled by the state insurance departments through the supervision of their companies. Is this significant?



- (2) What changes, if any, would be necessary in Canada? Only Fellows of the Society, Institute or Faculty may certify annual statements of fraternal insurance companies, but regular life insurance company statements are signed by the company's actuary, and pension fund accrued liabilities due to past service must be certified by a "qualified actuary." It is my understanding that there is no requirement that the company's actuary be competent and there is no definition of "qualified actuary." However, the problem is not as serious as it might appear, as all life insurance company actuaries are fellows of one of the recognized actuarial bodies and all are well qualified.
- (3) How can we best recognize and protect the attainments of our students if actuaries are legally recognized?
- (4) What consideration should be given to other actuarial organizations? For example, the Casualty Actuarial Society has been the recognized professional body in the casualty field for many years, and the rights of members in that organization must be recognized in their special field.
- (5) What can we learn from the study of licensing or certification of other professions? Engineers work both for corporations and as private consultants. For that reason a review of their licensing requirements might be helpful to us.

Our committee to investigate the question of possible certification or licensing of actuaries should study all of these questions and many others.

But it will not be enough to secure legal recognition of qualified actuaries. The public must be educated to appreciate that a "Certified Actuary" has passed rigorous tests and is fully qualified, at least in the field for which he is certified.

Other organized groups, such as the certified public accountants, have very effective public relations programs. They not only work at the national level but use every means to influence directly those individuals who are in a position to recommend their services.

The Society should follow a similar practice. We must convince bankers, employers, Government agencies, and union leaders that they should seek actuarial advice from qualified actuaries only. We must be able to help them select those who are qualified.

Also, when we have chosen the course of action that seems to have the most merit, we must forcefully push in all states for statutory recognition of qualified actuaries. This will require a legislative organization as well as a public relations program.

I cannot close without recognizing the unselfish devotion of our many

members who devote hours of their time as officers or committeemen in behalf of the Society. Outside of having their names printed in the *Year Book*, they receive little public recognition. I am sure, however, that all of them have the personal satisfaction of knowing they have contributed much for the benefit of the other members of the Society and the actuarial profession.

I also want to express my personal thanks to our hard working Secretary, Tom Gill, and our editor, Alden Bunyan. They have served the Society well and faithfully for several years and have made the work of the presidents much easier. Although Tom has not reached the retirement age of 65 yet, he has elected early retirement and has asked that he not be re-elected. I know all of you will want to join in expressing our appreciation by giving him a well deserved hand.