The Newsletter
of the Society
of Actuaries

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The Actuary

A history of the future

Tracing the rise of profession's globalization

by Howard J. Bolnick
1998-99 SOA President

Globalization is here. Our business lives and personal lives are being forever altered by its relentless progress. The actuarial profession, too, is somewhat silently being caught up. For most of us, globalization has not yet affected our professional lives. However, this will change dramatically in the next five to 10 years as globalization of the financial services industry changes the very nature of the businesses for which we work, the customers with whom we consult, and the rules by which we practice.

Growth of national actuarial organizations

Actuarial science is in the process of becoming a worldwide profession. The International Actuarial Association (IAA) currently has 61 member organizations representing actuaries in 50 countries.

Actuaries have their intellectual roots in 18th-century development of probability and statistics by formidable thinkers like Daniel and Jacob Bernoulli, Abraham de Moivre, Edmund Halley, and Richard Price (the founding father of actuarial science). These intellectual achievements

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The public's voice

Actuary joins high-profile teleconference on Social Security and women's issues

by Anna M. Rappaport
SOA Immediate Past President

Nearly a year ago, a forum was launched to give the public a neutral avenue through which to express views on the U.S. Social Security program and possible reforms. This nonpartisan, unbiased effort is called "Americans Discuss Social Security," and its sponsor is the Pew Charitable Trust, which supports projects involving citizen participation in important issues.

Its agenda has been aggressive — forums in all 50 states, nationwide forums featuring President Clinton and Vice President Gore, and even a grassroots effort to raise discussion about Social Security among U.S. college students.

An important element of "Americans Discuss Social Security" is a teleconference format, in which panelists or keynote speakers discuss issues before audiences in several states linked by satellite. Each site's audience offers its views through a discussion leader and electronic polling. Callers viewing on cable TV can call the panelists live on the teleconference. While this puts the guest speakers on the "hot seat," it also offers an unusual opportunity — the chance for real dialogue on a national issue between private individuals and the public figures and experts with the greatest influence.

On Jan. 23, I was privileged to participate in a 10-city nationwide teleconference as a representative of the American Academy of Actuaries. The topic was "What Every Woman Should Know About Social Security." Chaired by first lady Hillary Clinton and Rep. Jennifer Dunn (R-Wa.) and moderated by nationally syndicated columnist Jane Bryant Quinn, the four-hour teleconference brought together prominent experts on the topic.

Speakers: women in policy

In their opening remarks, both the first lady and Rep. Dunn offered data indicating that women are more likely to be poor in old age and have lower

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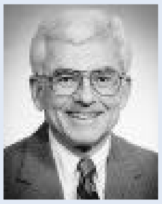

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EDITORIAL

The president's plan for Social Security

by Marc Twinney

Two years after the Advisory Council on Social Security issued its report and following many discussion forums on Social Security reform, the Clinton administration has come forth with its proposal. It contains two plans to transfer surplus tax revenue to Social Security and to invest part of the transfers in equities. Why the double dip — two proposals to invest in equities? An obvious reason is to improve the program's rate of return.

As we have reported and commented on Social Security reform, we have emphasized the importance of the overall rate of return on the program for all participants. Reforms that improve rather than lower the low real rate of slightly above 1% on the current program are important to the healthy growth of the national economy and to allow social adequacy and individual equity.

With that in mind, let's see how the reforms proposed in the January State of the Union address measure up. First, for 15 years the proposal would transfer from general revenues to the Social Security fund additional amounts much greater than the near-term surplus in FICA contributions. The transfer would be invested for the long term in equities and government bonds. Second, the proposal adds a new element—individual accounts on a relatively small scale to supplement Social Security's defined benefits and subsidizes the accounts from the general revenue with a flat dollar contribution that favors low earners.

Using general revenue for reform is the first novel idea in the proposals. During the long years of deficit spending, general revenue was strictly off limits for Social Security. This was true even though the Social Security program was then running a surplus and helped to offset $50 to $70 billion of general budget spending. Since the program's inception, the idea that it be self-supporting was considered necessary to preserve the perception that the program was a contributory, earnings-related pension.

The transfer of general revenue to the defined benefit programs based on today's projections of each year's current surplus may be helpful but could be a mixed blessing. The bulk of the transfer, invested in special issue government bonds that are not publicly traded, won't count as part of the public debt for most purposes. Even its interest will be a wash, the payment on the bonds from the Treasury exactly matching the credit to the trust fund.

The real return assumed on the bonds (2.8% in the 1998 Social Security Trustees' report, up from the 2.3% in the advisory council report) is much better than the long-term growth expected in real payroll. Using the budget surplus to reduce government debt, instead of switching it from the public to the nonpublic (Social Security) arena, would return the same 2.8% to the economy.

The transfer and interest will move the estimated date of fund exhaustion from 2032 to 2049. But it won't do anything to defer the estimated date (2013) when benefit payments start to exceed cash reserves, forcing either bonds to be sold to the public or general revenue to be tapped for cash.

The proposal would express the transfer (62% of the estimated surplus) year by year as a percentage of projected taxable payroll. The addition of this new tax revenue will hurt the benefit/tax ratio that drives the overall rate of return, offsetting the better return.

The proposal for a government agency to invest the trust fund in equities is controversial. The proposed level is relatively low, only 21% of the new funds from transfers until equity allocation reaches 14.6% of the entire fund. This allocation improves the long-term actuarial balance. It also helps to defer the estimated date of fund exhaustion for six years, from 2049 to 2055.

This gain in solvency seems small and may be hardly worth the trouble, given Alan Greenspan's adverse reaction within 24 hours of the State of the Union address and all the questions about how this investing would work. Investing the trust fund in equities seems to make sense only if one concludes that Social Security is more important than all the interests and obligations of the other stakeholders—other investors, private markets, governance of private enterprises, and even the people's elected representatives in the regulatory and legislative processes.

The proposal also defers making any of the hard choices in adjusting benefits that are addressed under all three plans or the increase in payroll taxes and Medicare tax under Robert Ball's plan in the advisory council report. For example, the cost of improvement in surviving spouses' benefits, reductions in cost of living, the future benefit accrual, and later retirement ages went untouched. Without these more conventional changes, the administration's proposal will not close the actuarial gap. We are facing large benefit expenditures because of the birth and mortality rates, even beyond the baby boom generation. The benefits climb from today's 11.5% to more than 19% of payroll in the long-range intermediate forecasts. That is a big mountain for a 12.4% payroll tax to climb, however augmented by fund returns and transfers.

The proposal to establish private accounts to be invested individually is encouraging. Its review in these pages will wait until more detail is available.

The public's voice (continued from page 1)

retirement benefits than men because of different work histories. Clinton repeated the president's proposals for reforming Social Security, while Dunn encouraged the audience to think about innovative new solutions. Dunn pointed to the low rate of return (2.2%) for young people in Social Security today versus the much higher rates of return in the stock market. In so doing, she did not highlight the value of the death and disability benefits or the redistributive features of the system, but the first panel picked up this point and amplified it.

Two panels were assembled for the event. The first included Cindy Hounsell, Executive Director of WISER (Women's Institute for a Secure Retirement), a nonprofit group devoted to educating women about retirement, and Jane Ross, deputy commissioner for policy, U.S. Social Security Administration. The second panel included Leanne Abdnor, executive director, Alliance for Worker Retirement Security; Heidi Hartmann, director and president, Institute for Women's Policy Research; Eugene Steuerle, senior fellow, Urban Institute; and myself. Unlike others on my panel, I did not take a position on the issues. As an Academy representative, my role was to provide information and implications. I gave a brief explanation of the solvency issues and the operations of the Social Security trust fund. Also, I prepared a paper for distribution before the teleconference ("Social Security Reform Options and Their Implications for Women").

All the panelists and speakers agreed that it's important to understand the differences between men and women with regard to life span, work history, income, and family roles. They also agreed that these issues should be factored into the U.S. Social Security debate, and most felt this hadn't yet happened. Trade-offs are the major barriers to solving Social Security's problems, they said, especially when it comes to women. Politicians seek solutions without losers, but almost by definition, any change that significantly improves the system's financial status is likely to create losers. Tax increases or benefit changes within the system's current framework will have a widely distributed (although very modest) effect on many participants, generally downward; in contrast, structural changes would have a much bigger impact on some participants, resulting in a more dramatic "win-lose" scenario.

Conference speakers and background materials pointed out the greater need for Social Security among elderly women than men:

- Sixty percent of Social Security beneficiaries are women. Most elderly women will eventually be alone.
- For 25% of elderly unmarried women, Social Security is their only form of income.
- Elderly unmarried women get 51% of their income from Social Security, compared to 39% for elderly unmarried men.
- In 1997, the median income for elderly unmarried women was $11,161, compared to $14,769 for men.
- The 1997 poverty rate for divorced elderly women was 22%, compared to 5% for married women and 18% for widows.

Wide views on reforms

Agreement among the panelists ended when the discussion turned to reforms.

At one end of the spectrum was Heidi Hartmann, who indicated she sees no crisis and that major changes in the system are unnecessary and undesirable. Her views are similar those of Robert J. Myers, former chief actuary of the U.S. Social Security

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Anna Rappaport (right) pauses in a backstage conversation with journalist Jane Bryant Quinn.

Administration and still active in the Social Security discussion. On the other side was Leanne Abdnor, who stated strong support for private accounts and concern for the system's future financing. However, she also emphasized the need for solid minimum benefits.

The panel discussed the possibility of outliving benefits, and all seemed to agree that if private accounts are used, joint and survivor annuities should be mandatory. Steuerle focused on the importance of exploring the impact of retirement age increases. Many actuaries have said this is the most logical area to begin reform, particularly with the large increase in life expectancy since Social Security was implemented and the decline in actual retirement ages. The range of views among the panelists was similar to that of the last Advisory Council on Social Security. (Changing retirement ages, an important issue, has been politically unpopular and was not raised often in this teleconference's calls from the public.)

There was also substantial disagreement about whether individual accounts would have a positive or negative effect on women. Women are a very diverse group, so individual situations vary greatly. Individual account deposits reflect individual earnings, and women earn less overall. The current system redistributes funds from higher-income earners to lower-income earners and from single workers and dual-income families to traditional families. These features aren't inherent in an individual account system (unless it's specifically designed to favor lower-income workers). The panelists agreed that the absence of a strong minimum benefit would create serious problems for women. Even assuming a minimum benefit, panelists disagreed about the desirability of individual accounts, a key issue in the Social Security debate.

Family structure makes a difference

The panels focused on issues related to family structure, including:

- Divorce and handling of benefits in divorce. The poverty rates are greatest among elderly divorced women.
- Inequities between single- and dual-income families and problems related to low widow's benefits for dual-income families. Two-income families with equally paid workers have lower widow's benefits.
- Conflict in trying to address the needs of homemakers versus two-earner families. There was significant disagreement over possible solutions.
- Whether universal minimum benefits and some minor patching up of the formula offer solutions to these issues.

A public forum

Questions from callers and the audiences at teleconference sites reflected some of the public's views. The questions indicated that many participants had spent time studying the options. Topics included:

- Concerns about the importance of Social Security for women. This led to questions about whether Social Security will be there for the baby boomers and later generations. Dunn and others observed that if nothing is done, in 2032 — when the trust fund is projected to run out — taxes at the current level will cover 75% of the required benefits. Panelists Hartmann and Steuerle pointed out that with a strong economy, a better ratio of taxes to benefits would strengthen the trust fund. The issue is not whether something will be there but how much.
- How private accounts might operate and their pros and cons. Questions centered on their desirability for different groups, investment choice, what happens to accounts on divorce and death, costs of such programs, and who wins and loses. This is clearly an area of major concern and one on which the generations differ.
- How transition costs would be financed if individual accounts were established.
- The possibility of raising taxes for higher-income earners or cutting benefits for them. Some teleconference site participants suggested combinations of changes involving trade-offs to solve the problem. These combinations showed considerable insights into the issues.
- Why a widow who contributed to Social Security as a worker can't receive both her benefits and that of her spouse. Callers raised the two-earner widow's benefits issue in different ways.

An actuarial voice

These types of forums — gatherings of experts from many disciplines and organizations speaking before a public audience — offer an excellent platform for actuaries. Our value as knowledgeable providers of information and, in some forums, solutions becomes clearly visible.

I strongly urge actuaries to get involved in critical issues. There are many opportunities at local, state, and national levels for actuaries to raise a clear, thoughtful voice. Many issues need such a voice today.

Anna Rappaport is principal, William M. Mercer Incorporated, Chicago. She can be reached by e-mail at *anna_rappaport@mercer.com*. Her teleconference paper is available on the Academy's Web site (*www.actuary.org*).

SOA plans symposium on Social Security

Experts on public and private pension issues will discuss the impact of social security privatization on retirement income at a special event, the Social Security Symposium, on May 13 at the University of Michigan, Ann Arbor.

The symposium will be of interest to actuaries and other professionals concerned with social security issues, particularly U.S. Social Security reform. Topics include the pros and cons of privatization, its impact, administrative issues, and frameworks in which to view the U.S. Social Security system and its reform.

Speakers will include Andrew Abel, professor, Wharton School of Business, and member, U.S. Social Security Technical Panel; Christopher M. Bone, chief actuary, Actuarial Sciences Association; Robert L. Brown, professor, University of Waterloo; Ron Gebhardtsbauer, senior pension fellow, American Academy of Actuaries; Stephen C. Goss, deputy chief actuary, U.S. Social Security Administration; Gail Kellogg, retired partner, Hewitt Associates; Robert J. Myers, former chief actuary, U.S. Social Security Administration; Anna M. Rappaport, 1998-99 SOA past president and principal of William M. Mercer Incorporated; Dallas Salisbury, director, Employee Benefit Research Institute; Sylvester Schieber, vice president, Watson Wyatt, and member, U.S. Social Security Advisory Board; and Eugene C. Steuerle, senior fellow, The Urban Institute.

The symposium is cosponsored by the SOA, the American Academy of Actuaries, and the University of Michigan's business school, mathematics department, and Michigan Retirement Research Center (sponsored on campus by the U.S. Social Security Administration).

The fee is $200, and space is limited. Information is posted on the SOA's Web site (*www.soa.org*) under *Meetings/ Seminars*. To register or for more details, contact Sue Berg in the SOA's Continuing Education Department (phone: 847 / 706-3545; fax: 847 / 706-3599; e-mail: *sberg@soa.org*).

Social Security's importance leads to joint meeting between SOA, Academy committees

by Joseph Applebaum

The Society of Actuaries Committee on Social Security and the American Academy of Actuaries Committee on Social Insurance held a joint meeting on Feb. 26.

The joint meeting recognized the unique nature of social security issues, which involve public policy as well as research and education. This requires the two committees, with their distinct missions, to coordinate their efforts. In addition, the committees are looking to maximize their available resources.

At the meeting, the committees briefed each other on ongoing projects, such as the SOA committee's statement on social insurance and how actuarial science can help in reforming Social Security financing. Also on the agenda were potential seminar topics, such as the impact of privatization of social security on retirement income, and potential research and public policy projects on the impact of social security reform on private pensions.

Joseph Applebaum is chair, SOA Committee on Social Security. He can be reached by e-mail at ***ApplebaJ@pwba.dol.gov*****.**

Academy survey shows many plan to retire early

Forty percent of working Americans believe they'll be able to retire before they're eligible for Social Security benefits, reports a survey sponsored by the American Academy of Actuaries.

The survey, conducted last fall by research firm Yankelovich Partners, also found 40% of respondents planning to retire before age 62, the age at which Social Security payments begin. Also uncovered by the survey were:

- Another 31% said they could afford to retire between age 62 and 65.
- Forty-five percent of working respondents believed they will need less than 60% of their current income in retirement, but only 29% of retired respondents thought the 60% level was adequate.
- While 45% of working Americans were concerned about possibly outliving their money, only 31% of retired individuals had that concern.
- Among retirees, 16% said their standard of living improved in retirement, and 51% said it stayed the same.
- Twenty percent of retirees said they spend less than 60% of their annual income, and fewer than 8% said they consume principal.

Details and a copy of the survey are available from Jeffrey Speicher at the Academy, 1100 17th Street N.W., Washington, D.C., 20036 (phone: 202 / 223-8196; fax: 202 / 872-1948; e-mail: *speicher@actuary.org*).

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led life insurance offices in England to rely on business-oriented mathematicians called “actuaries” to help assure their solvency. The formal profession has its origins in the organization of the Institute of Actuaries in London in 1848.

Following the Institute’s initial success, growth in national organizations took place in two waves. The first wave came between 1848 and the start of World War I in 1914. Eighteen national actuarial organizations were formed in the major Western European countries, two non-European British colonies (Australia and Canada), czarist Russia, Japan, and the United States. The first U.S. / Canadian entry was the Actuarial Society of America, formed in 1889 as the world’s fourth actuarial organization.

The years between the two World Wars, 1919 to 1939, saw few new organizations. A handful of Eastern and Western European countries joined the European actuarial family. Mexico also was added to the international community with the formation of the *Instituto Mexicano de Actuarios* in 1937.

Not surprisingly, the greatest growth in actuarial organizations has taken place since the end of World War II. Forty-one of the 61 IAA members were formed in the postwar era. Most notably, the actuarial profession broke out of its strong European orientation to become a truly international family. New actuarial organizations were formed in Asia, Africa (including Nigeria in 1983), the Caribbean, South America, and the former Soviet block of nations.

By the end of the 20th century, we clearly can view ourselves as an international profession.

Professionalism

Nineteenth-century actuarial organizations began as associations of people with the “actuary” designation from life offices. By World War I, most of these organizations had adopted trappings that characterize a profession: basic education, continuing professional education, research, discipline, and public policy involvement.

In the United States and Canada, the Actuarial Society of America (ASA) held periodic professional meetings with presentations of papers shortly after its formation in 1889. Exams were introduced in 1896. The first research study was undertaken in 1903: the Medico-Actuarial Mortality Investigation, published in 1912-1914. Provisions for hearing charges of professional misconduct were added in 1906. And, ASA members participated, as actuaries, in public policy debates surrounding the Armstrong investigation in 1905, hearings by the New York legislature on allegations of managerial abuses at the largest East Coast insurance companies. (This led to a push for state laws which could have crippled the insurance industry, but the legislation was toned down in large part due to the advice of a committee of actuaries.) By the early years of the 20th century, ASA had developed at least rudimentary forays into all of the areas that we associate with our professional lives.

The pace of growth in professionalism varied significantly by national organization. Many other national actuarial groups — for example, those in the United Kingdom, Canada, Mexico, and Australia — also have developed into fully functioning professional organizations. Others are still evolving toward this goal.

International organizations

From its infancy, the actuarial profession has had an international presence. In 1895, the *Le Comite Permanent des Congres Internationaux d’Actuaires* was established by actuaries from Australia, Belgium, Canada, France, Germany, Holland, Italy, the United Kingdom, and the United States. This organization, headquartered in Brussels, was formed to arrange the International Congress of Actuaries every four years. Membership was open to actuaries from around the world. Its purpose was to promote discussion of actuarial practice and research topics. In 1968, *Le Comité* was renamed the International Actuarial Association, and in 1997, IAA headquarters moved from Brussels to Ottawa.

The 26th International Congress of Actuaries, held last year in Birmingham, England, attests to

Call for applicants for 1999 Wooddy Scholarships

The Actuarial Education & Research Fund (AERF) announces the 4th Annual Wooddy Scholarship Program, which awards four $2,000 scholarships to undergraduate students with senior standing.

Applicants must rank in the top quartile of their class and have successfully completed one actuarial examination. As part of the application, each student must write a brief essay and be recommended by one of their professors. Students also will be judged on leadership as demonstrated through extracurricular activities. Only one application from each school is permitted.

Deadline for applications is June 30. Winners will be notified by Aug. 31.

Applications are available on the SOA Web site at *www.soa.org/educationandexaminations* and from Paulette Haberstroh at the SOA office (phone: 847 / 706-3584; fax: 847 / 706-3599; e-mail, *phaberstroh@soa.org*). Information is available from Curtis Huntington, AERF executive director, at his *Directory* address.

the enduring value of international contacts. The 27th Congress will be held in Cancun, Mexico, in 2002.

The *Comite's* success led to its adding two sections. In 1957, the ASTIN section (Actuarial Studies in Non-Life Insurance) was formed to promote the international study of non-life insurance where stochastic modeling is used. Then in 1988, the AFIR section (Actuarial Approach for Financial Risks) was launched to extend actuarial knowledge to the study of finance. ASTIN and AFIR hold their own periodic colloquia.

Global economy

The post-World War II era has seen the rise of a global economy. While globalization has proceeded on many fronts, some areas of development have particular importance for the actuarial profession.

Historical barriers to international trade have been falling. The major worldwide forum for negotiating change are the rounds of negotiation taking place under the General Agreement on Tariffs and Trade (GATT). GATT originally focused on trade in goods. Its major tactic to reduce trade barriers is an agreement among nations joining the treaty to extend most favored nation (MFN) treatment to all members of the World Trade Organization (WTO).

The 1983 Uruguay Round led to creation of the General Agreement on Trade in Services (GATS). GATS extends the MFN concept to service industries, including financial services, insurance, and actuarial practice. While the direction of negotiations under GATS is clear, the pace of change will be slow. Member nations have been making offers to reduce barriers through the WTO in preparation for the next round of negotiations early next century. These commitments are already affecting service professions. For example, accountants across the world are working on international qualification standards based on the principal of mutual recognition of professionalism for individuals meeting minimum national standards.

Growth in international trade and international business create a need for international standards. Financial services is an area with a great deal of recent activity. The first major agreement was the 1988 Basle Capital Accord that established international standards for measuring bank capital and solvency.

The International Organization of Security Commissions (IOSCO) was founded in 1974. National representatives at IOSCO became increasingly dissatisfied with differing, inconsistent accounting standards for multinational companies. In 1995, IOSCO came to agreement with the International Accounting Standards Committee (IASC), formed in 1973, to work on a complete set of international accounting standards to apply to multinational businesses holding cross-border securities listings. IASC has done, and continues to do, extensive work on international accounting standards, including current projects involving insurance companies and employee benefit plans.

Most recently, the International Association of Insurance Supervisors (IAIS) was formed in 1994 to help establish international solvency and supervisory standards for insurance companies. Projects underway at IAIS and IASC are of great interest to actuaries.

Regional organizations have also been at work reducing trade barriers. The European Union (EU) is perhaps the most established and extensive example of this trend. In North America, we have NAFTA, which is a much less extensive agreement, but still one that affects our professional lives. Other regions have their own agreements: Southeast Asia (the ASEAN organization), the former Soviet block, and some South American countries (MERCOSUR) among them. These regional agreements create areas with lower internal trade barriers, which allow freer movement of labor, including professionals. If actuaries gain easier access to other countries, actuarial practices and standards may need to be harmonized.

Regional actuarial organizations

Regional trade areas like the EU and the NAFTA countries have led to the need for regional actuarial organizations to respond to the changes created by lower trade barriers.

Le Groupe Consultatif was formed in 1978 to allow European actuaries to respond to changes coming from the EU Secretariat. The EU is a unified economic area with common laws and regulations, and financial services are rapidly becoming EU-wide. In 1992, an EU directive required mutual recognition of professions. Members of national actuarial organizations are now able to provide their professional services throughout the EU, subject to some nation-specific work supervision requirements. When the EU was formed in the early 1990s out of the former European Community (EC), the pending strengthening of European unification prompted *Le Groupe Consultatif* to adopt its common code of professional conduct. This code was later adopted by the IAA as the minimum code for divisional membership. This is a tangible example of how increased freedom of professional movement between countries could lead national actuarial associations to respond to globalization.

North America is moving slowly in the same direction. NAFTA allows for recognized professionals to freely cross borders to perform services. The American Academy of Actuaries, Canadian Institute of Actuaries, and *Colegio Nacional de Actuarios* are negotiating with their respective governments to have actuaries recognized as a profession under NAFTA. Leaders of all nine U.S., Canadian, and Mexican actuarial organizations meet regularly in the Council of Presidents. Council members have negotiated standards for recognizing the qualifications of one nation's actuaries to work in the other two NAFTA countries.

For the past two years, periodic meetings have been taking place

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between U.K., U.S., Canadian, and Australian actuarial organizations. This informal group discusses issues of common interest. These discussions are becoming increasingly important, since many multinational insurers and consulting firms are hiring actuaries credentialed in one of these countries to work in another of them. Mutual recognition of actuarial credentials has become an important topic.

Other regional actuarial organizations also are being formed. Most recently, a forum is being created for South American and Central American national actuarial organizations.

International Actuarial Association

In the early 1990s, a number of foresighted leaders in the profession recognized a need for an international group consisting of actuarial organizations, not just individuals, from around the world. These actuarial visionaries came from Australia, Belgium, Canada, France, Germany, Japan (representing the Asian actuarial organizations), Mexico (representing the Latin American countries), the Netherlands (representing other continental European countries), Norway (representing the Nordic countries), Switzerland, the United Kingdom, and the United States. This group's efforts led to the 1995 formation of the IFAA as a division of the IAA. Once formed, the IFAA demonstrated a clear need for its existence when it faced two major needs:

- To respond to the international accounting community on actuarial aspects of accounting for pensions, other employee benefits, and insurance
- To develop recommendations for the core actuarial syllabus by the next decade

The need for the member actuarial associations to be directly involved in these deliberations became so clear that, at the International Congress in Birmingham last year, the IFAA was absorbed into the IAA, and the IAA itself was re-formed as an association of associations with the same voting stucture as the IFAA. (See "Going global," *The Actuary*, June 1998.) The ASTIN and AFIR sections of the former IAA continue as individual membership sections of the new IAA, with the possibility of adding new sections to advance dialogue in other practice areas.

Today, the IAA's objectives are:

- To develop the role and enhance the reputation and recognition of the actuarial profession and individual actuaries throughout the world
- To promote high standards of professionalism among actuarial associations and among actuaries throughout the world to ensure that the public interest is served
- To advance the body of knowledge of actuarial science and its application
- To further the professional development of actuaries worldwide
- To promote mutual esteem and respect among actuaries
- To provide a forum for discussion among actuaries and actuarial associations throughout the world
- To represent member associations in discussions with international bodies

The IAA is the profession's vehicle for participating in globalization. Its agenda is quite full. Internal to the profession, we need minimum education standards, a common basic education syllabus, and minimum professional standards. This will ultimately lead to mutual recognition of those who qualify as actuaries under GATS and regional trade agreements as they make national borders transparent to actuarial professionals. Externally, we need to interact with international standard-setting bodies like IAIS and IASC to help develop the actuarial profession and to influence the emerging role of the actuary throughout the world.

Changing our professional lives

Globalization is profoundly affecting the world in which we live and work. This trend will soon affect our professional lives. Actuaries have historically served a critical role in the growth and solvency of insurance and employee benefit plans around the world. For our profession to continue to thrive and to expand into new financial services' areas that need our skills, we must understand the consequences of globalization and actively participate in the institutions shaping our future.

Web sites

Actuaries can keep in touch with international issues affecting them through the IAA, IASC, and IOSCO Web sites. They are, respectively: *www.actuaries.org*, *www.iasc.org*, and *www.iosco.org*.

Howard J. Bolnick is chief executive officer, Radix Health Connection, Chicago, and adjunct professor, Northwestern University. He can be reached by e-mail at *hbolnick@nwu.edu*.

Course 200 seminar at 3 sites

Professor Robert L. Brown of the University of Waterloo will offer three Course 200 seminars this spring: April 3-8 in St. Louis, April 16-21 in Hartford, and April 23-28 in Chicago. For further information, contact Brown (phone: 519/ 888-4567, ext. 5503; e-mail: *rlbrown@jeeves.uwaterloo.ca*).

Learning, networking at '99 SOA spring meetings

Registration is open for this year's SOA spring meetings. Life and health topics will be the focus of the meeting on May 24-25 in Atlanta. Pension and finance issues will be covered at the June 16-18 meeting in Seattle.

In addition to offering educational sessions and opportunities for networking, each meeting will include events of special interest.

Members attending the Atlanta spring meeting can take advantage of a field trip to the Centers for Disease Control (CDC) from noon to 3 p.m. May 24. The trip will demonstrate the efforts made by the CDC to prevent and control deadly infectious diseases. Participants also will hear from a CDC speaker, who will relate the work of actuaries to that of the CDC.

Health and pension actuaries will have a chance to network at the "Sleepless in Seattle" reception at 8:30 p.m. on June 17. Those attending will have an opportunity to make arrangements to meet at the top of the Empire State Building on Valentine's Day, 2000.

Advance registration for both special events is required.

Session information and registration materials are posted on the SOA Web site (*www.soa.org*) under *Meetings/Seminars*. More specific information is available from Sue Berg in the SOA Continuing Education Department (phone: 847/706-3545; fax: 847/706-3599; e-mail: *sberg@soa.org*).

U.S. actuarial disciplinary code updated

by Jacqueline Bitowt
SOA Public Relations Specialist

Rules for discipline of U.S. actuaries were recently updated, detailed, and clarified through the revision of Article X of the American Academy of Actuaries' bylaws. The bylaws include governance of the Actuarial Board for Counseling and Discipline (ABCD).

Begun in 1997, the process led to approval of the new Article X late last year. The revision includes a greatly expanded Rules of Procedures section, reflecting knowledge gained over the past several years and pulling together and refining elements previously spread throughout Article X.

Other highlights of the revised Article X include:

- For the first time, allowing a private reprimand as a form of discipline "if permitted by the membership organization's bylaws or rules"
- Specifically allowing the appointment of advisors in the specialty area of a matter under investigation
- Stipulation that written notification of recommended discipline be sent to all organizations to which the actuary belongs that are participants in the ABCD process
- Clarifying the role of counseling, which may be recommended "when the ABCD determines (it) to be more appropriate than dismissal of a matter" and which is not considered a form of discipline
- More extensive description of the process of waiving confidentiality

The revised Article X reflects comments from the Academy membership at large and the SOA, American Society of Pension Actuaries, Casualty Actuarial Society, and Conference of Consulting Actuaries. Academy members approved the revision by majority vote, and the new Article X took effect Nov. 25, 1998.

The participating actuarial organizations' comments on the proposed Rules of Procedure were submitted to the Academy membership with the revised Article X draft. The revised rules were approved by the ABCD, according to Article X's delegation of such approval to the ABCD, in December 1998 and took effect Jan. 1.

Article X and the revised rules are listed on the ABCD's Web page (*www.abcdboard.org*) and in a booklet from the Academy (phone: 202/223-8196; fax: 202/872-1948).

Mail alert

The First Ballots for the 1999 SOA elections will be mailed to all Fellows on March 9. To be valid, ballots must be received by the Society office no later than April 9. Fellows who do not receive a First Ballot by March 19 should call Lois Chinnock at the SOA office (847/706-3524).

Underway

Celebration in full swing; first 6 sponsors sign on

by Cecilia Green
SOA Director of Integrated Communications

Although the Society of Actuaries isn't actually 50 years old until June 3 and the official celebration is in October at the SOA annual meeting, the 50th anniversary celebration has begun. Each month during 1999 brings new activities to mark this important milestone. Here's some you may have already noticed:

- On the Web (www.soa.org): special pages with information on the 50th and monthly Anniversary Actutrivia contests on discussion forums.
- In print: Each issue of *The Actuary* has included special announcements of annual meeting speakers and the SOA's 50th anniversary history book, as well as a look back at what influential world events were taking place 50 years ago. *The North American Actuarial Journal's* October 1998 issue carries an article, "The Wartime Birth of Operations Research," first in a series of intellectual history review articles featuring distinguished actuaries whose work influenced world events.
- In the mail: A 50th anniversary sponsor package with a letter from Ian Rolland, honorary chair, was mailed to more than 1,000 companies with details of how they could, for the first time in SOA history, support a major SOA meeting and gain recognition in SOA publications and on its Web site.

First sponsors commit early

Five companies and one individual have already pledged their support of the 50th anniversary, representing all the available sponsorship levels.

Platinum ($50,000): Milliman & Robertson, Inc. (M&R) and LAI Worldwide are the first sponsors at the Platinum level.

Headed by President and CEO Robert L. Collett, F.S.A., M&R is a firm of actuaries and consultants serving the full spectrum of business, governmental and financial organizations. Founded in 1947 and incorporated in 1957, M&R has more than 1,300 employees located in 29 offices.

"The professionals at Milliman & Robertson recognize the substantial contribution that the Society of Actuaries has made to whatever success we have achieved," said Bob Collett, president and CEO. "We are proud to participate as sponsors in the SOA's 50th Anniversary celebration."

LAI Worldwide is one of the largest and fastest growing executive search firms in the world. The company provides full-service, global search expertise exclusively on a retained basis for major multinationals, large private organizations, and newly emerging start-up companies.

"My organization and I have been involved with the actuarial profession since 1967," said Mike Corey, senior partner – global financial services practice leader. "Throughout those years, I have been fortunate to watch the profession grow to the success it enjoys today. The contribution of the leadership and membership is unparalleled. To be part of the growth is something I'm extremely proud of, and the involvement of LAI Worldwide in the 50th Anniversary celebration is our way of saying thank you for all the profession has given to me and my firm."

Gold ($25,000): Aid Association for Lutherans (AAL), the first Gold 50th anniversary sponsor, was founded in 1902 in Appleton, Wis., to bring Lutherans together to pursue quality living through financial security and helping one another. Over the past 95 years, AAL has become the nation's leading fraternal benefit society and a member of the Fortune 500.

"AAL is proud to acknowledge the contributions of actuaries and the actuarial profession to its success," said Walt Rugland, F.S.A., chief operating officer. "AAL is nearing its centennial, and the legacy of its past has strong actuarial input. Forceful actuarial influence led to an early conversion from assessment certificates to a legal reserve basis. Two of eight AAL presidents were F.S.A.s, and two AAL actuaries were Academy presidents. Gold sponsorship is our way of saying thanks to the profession and expressing confidence in the future role that actuaries will play in meeting the needs of societies worldwide."

Silver ($10,000): Munich American Reassurance Company is the first Silver sponsor. Founded in 1959 and headquartered in Atlanta with David Holland, F.S.A., as president and CEO, this firm is the U.S. life reinsurance subsidiary of Munich Re, the world's largest reinsurer.

"Munich American congratulates the Society on its 50 years of excellence," said Jim Sweeney F.S.A., executive vice president and COO. "Our sponsorship is in recognition of the Society's significant contributions to the actuarial profession and to the insurance industry. We have all have benefited and should take this opportunity to celebrate the Society's 50th anniversary."

Bronze ($5,000): Two sponsors are supporting the 50th anniversary at the Bronze level: McGinn Actuaries Ltd. and Robert J. Myers, F.S.A.

Daniel F. McGinn, F.S.A., president and chief actuary of this Anaheim, Calif., firm, says his is one of few remaining small consulting firms that deals with significant retirement plans, including one of the largest multi-employer plans in the United States. It designs, establishes, and assists in administration of pension, profit sharing, retirement savings, group employee benefits, and specialized deferred compensation programs. "Part of the reason I am participating in the SOA's 50th anniversary, even in this small way," McGinn said, "is because this year is my 40th anniversary of becoming a Fellow and the 10th anniversary of McGinn Actuaries Ltd. The SOA has been a cornerstone of my success through the unique opportunities my actuarial career has afforded me."

Robert J. Myers, F.S.A., is professor emeritus at Temple University, former executive director of the National Commission on Social Security Reform, past chief actuary of the Social Security Administration, and a past president of the SOA. He continues to be an active participant in SOA meetings and publications, with his most recent paper, "A Logical, Simple Method for Solving the Problem of Properly Indexing Social Security Benefits," appearing in the *North American Actuarial Journal*, July 1998. He also is a frequent speaker at public meetings on the future of Social Security. When asked why he decided as an individual to contribute to the celebration, Myers said, "I just thought I owed it to the profession. For the 100th Anniversary, I'll give $10,000. I'm looking forward to seeing all my friends at the celebration in San Francisco."

Interested in sponsorship?

To receive a package outlining the sponsor levels and benefits, contact Cecilia Green, director of integrated communications, at the Society of Actuaries' office (phone: 847 / 706-3561; fax: 847 / 706-3599; e-mail: *cgreen@soa.org*).

Tony Bennett

SOA signs class act for 50th gala

As this issue went to press, the SOA received a verbal commitment from Tony Bennett to entertain at the 50th anniversary gala banquet in San Francisco on Oct. 19.

With his appropriate signature song, "I Left My Heart in San Francisco," and a career spanning five decades, Bennett will bring his warm and mesmerizing style to the wide range of ages attending the banquet.

A post-World War II heartthrob and now the darling of the MTV generation, Bennett has 90 albums to his credit and eight Grammy awards, the most recent being 1995 Album of the Year.

Plan now to be part of an unforgettable evening, rich with the legacy of 50 years of the SOA and this enduring artist. Watch for more details in the annual meeting preliminary program, scheduled for mailing in early summer.

Tony Bennett

Looking for a job? Turn to the SOA

Job seekers can add the SOA to their list of employment resources with the Job Link service on the SOA Web site and the SOA's Resume Matching Service.

The resume matching service, offered by the SOA Core Education & Global Initiatives Department, had 381 open positions and 156 resumes on file at press time. The service is available to unemployed members in the field and to students with at least 100 actuarial exam credits who are not yet employed as actuaries. Last year, 356 positions were listed; 170 of them required 100 SOA credits, 49 required Fellowship status, 108 required Associateship status, and 29 required Enrolled Actuary status.

Both job seekers and employers can obtain applications by contacting Pat Holmberg, E&E Ombudsperson, Society of Actuaries, 475 N. Martingale Rd., Suite 800, Schaumburg, IL 60173-2226 (phone: 847 / 706-3527; fax: 847 / 706-3599; e-mail: *pholmberg@soa.org*).

Also free of charge, job seekers can browse the Job Link postings on the SOA Web site (*www.soa.org*). Employers advertise for actuaries with a wide range of qualifications. Along with job specifications, each posting includes the position title and the company name, location, and contact information. Employers pay $300 for a 60-day listing. More information is available on the Web under *Job Link Guidelines* or from Debbie Jay, SOA Web development coordinator (phone: 847 / 706-3539; fax: 847 / 706-3599; e-mail: *djay@soa.org*).

Puzzle fans, please note

The puzzle will return with the April issue.

DEAR EDITOR

Readers respond to Myers, Heritage

In the January issue of *The Actuary*, Robert J. Myers continues a debate between himself and William W. Beach and Gareth G. Davis of the Heritage Foundation. (See "A glaring error" and "Heritage Foundation responds," *The Actuary*, September and November 1998 respectively.) The debate centers on whether it is acceptable to calculate returns on Social Security assuming that one dies at one's life expectancy. I believe this approach is acceptable in explaining possible returns to an individual, although I would also show individual returns assuming earlier and later years of death.

However, Beach and Davis err when they apply the same methodology to calculate the return for a group. In that situation, the aggregate return should be calculated using the expected distribution of ages at death. The Beach and Davis methodology and reporting allowed misleading statements to be made by the news media about the aggregate benefits of Social Security.

Douglas C. Doll

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I join Myers in questioning the statements concerning William Beach's and Gareth Davis' estimation methods.

The statement, "We chose our method ... after careful consideration of the advantages and disadvantages of three alternatives" is curious, in that the most accurate method of estimation listed was discarded in favor of a less accurate method.

What is referred to as the expected value "method" is in fact the calculation of the expected value of returns for a group. The median value method is only a quick and dirty estimate of the expected value of returns. The average life expectancy method isn't really well defined in the sources I've cited, but it seems to be similar to the median value method except for using the mean life expectancy, rather than the median, of a group. Again, this is no more than an estimate of the expected value of returns, using less complete information. The advantage of these methods is that they are easier to calculate than the expected value. The disadvantage is that they are less accurate. Specifically, for any function that is not perfectly linear, they do not provide an unbiased estimate. A return function which is concave downward (i.e., 2nd derivative is less than 0) will always yield an estimate via the median value / average life expectancy method which is higher than the expected value, and conversely. This is according to Jensen's inequalities, which are part of every actuary's course of education and examination.

Which brings us to the statement, "This is why many actuaries, especially in the private sector, have long recognized the weaknesses associated with the expected value method." As an actuary in the private sector, I'm compelled to ask: Huh? There is no substitute for the expected value. It's the basis for all further analysis.

The question of what to do about Social Security is the single greatest governmental challenge of our day, with enormous implications for the economic future of the United States. Unfortunately, many analyses take the form of finding data to support an existing premise that has been selected for political reasons. I feel that our profession must participate in applying rigorous standards of completeness and accuracy to public opinions on what is primarily an actuarial issue.

I applaud The Heritage Foundation's contributions to this debate, and I hope that a meaningful dialogue will continue.

Rick Pawelski