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Hot advice

A 'Sunscreen Speech' for future disability actuaries

by Paul D. Hitchcox

Mary Schmich of the *Chicago Tribune* wrote a column in June 1997 entitled "Advice, Like Youth, Probably Just Wasted on the Young." The column, addressed to 1997 graduates, became widely known as the "Sunscreen Speech" because of its central theme.

Schmich gave permission for me to modify excerpts for an imaginary address to the new century's first Fellowship Admissions Course. More specifically, this advice applies to actuaries working in — or who will work in — pricing and reserving for group disability insurance. (Schmich's original advice is in italics.)

The speech

Ladies and gentlemen of the 2000 Fellowship Admissions Course:

Wear sunscreen.

If I could offer you only one tip for the future, sunscreen would be it. The long-term benefits of sunscreen have been proved by scientists, whereas the rest of my advice has no basis more reliable than my own meandering experience. I will dispense this advice now.

Don't worry about the future. Or worry, but know that worrying is as effective as trying to solve an algebra equation by chewing bubble gum. The real troubles in your life are apt to be things that never crossed your worried mind, the kind that blindsides you at 4 p.m. on some idle Tuesday.

Don't worry about reserves and pricing. Profits for the group disability product are below five-year T-bill yields for the past five years, and worrying never helped. Monitoring experience, the economy, risk trends, competitors, claims, and contracts will help you keep from being blindsided on some idle quarter end.

Do one thing every day that scares you.

Write a disability policy for a group of blue-collar workers. Convince the vice president of product development that the latest contract revisions aren't worth a 20% discount. Take a sales representative to lunch.

Sing. Go ahead, but never at lunch.

Don't be reckless with other people's hearts. Don't put up with people who are reckless with yours.

Know that the reserves you calculate are your responsibility. Don't be reckless. Don't put up with people who are reckless with the English language. Standard valuation law does not let you change reserve assumptions midway through a claim. Regulators intend a level of redundancy in statutory reserves; actuaries should not be reckless with their intent.

Stretch.

Stretch your mind and be aggressive with pricing, since the risk of being too conservative is to write no business. But be careful with acquisition pricing. Actively acquiring, monitoring, and re-underwriting business is the sound basis of acquisition pricing. Freely discounting rates for unsubstantiated "early intervention" and "managed disability" savings does not work.

Get plenty of calcium. Be kind to your knees. You'll miss them when they're gone. Enjoy your body. Use it every way you can. Don't be afraid of it or of what other people think of it. It's the greatest instrument you'll ever own.

Hold plenty of reserve margin. Play fair and earn profits through strong operations, not weak reserves. Don't be bullied by management into holding less. Redundant reserves may be the greatest financial instrument you'll ever have.

Dance, even if you have nowhere to do it but your living room. But never in your office.



Read the directions, even if you don't follow them.

Do not read beauty magazines. They will only make you feel ugly.

Study for your actuarial exams but realize that there are product innovations and new ideas that won't be found in books. Do not read marketing magazines. They will only make you feel ugly.

Understand that friends come and go, but with a precious few you should hold on. Work hard to bridge the gaps in geography and lifestyle, because the older you get, the more you need the people who knew you when you were young.

There are fundamental differences in the training and education of actuaries, underwriters, sales representatives, claims adjudicators, and brokers. Bridge the gap and improve communication, because the older you get, the less you will like repeating yourself.

Accept certain inalienable truths: Prices will rise. Politicians will philander. You, too, will get old. And when you do, you'll fantasize that when you were young, prices were reasonable, politicians were noble, and children respected their elders.

Respect your elders.

Accept certain inalienable truths:

sales reps will force prices lower, high replacement levels will generate more claims, and someone else will offer a rate 30% below yours. And when you grow old, you will remember the cases you sold at the right rate, based on sound plan design, with the competitive advantage that justified a higher rate.

Be careful whose advice you buy, but be patient with those who supply it. Advice is a form of nostalgia.

Dispensing it is a way of fishing the past from the disposal, wiping it off, painting over the ugly parts, and recycling it for more than it's worth.

Be careful of consultants and advice columns like this. *But trust me on the sunscreen.*

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Retirement research grant program includes actuarial science

The Center for Retirement Research at Boston College is soliciting proposals for the Steven H. Sandell Grant Program for Junior Scholars in Retirement Research.

The program promotes research on retirement issues by junior scholars in a wide variety of academic disciplines, including actuarial science, demography, economics, finance, gerontology, political science, public administration, public policy, sociology, social work, and statistics. Grants of up to \$25,000 will be awarded for each successful applicant.

Funding comes from the U.S. Social Security Administration (SSA). Successful applicants will be eligible to apply for access to restricted data sets and will present their results to the SSA.

The deadline for proposals is Jan. 31, 2000. Awards will be made in March, and final projects are due March 31, 2001. Information is available on the Web at www.bc.edu/crr and from Annika Sunden, the center's associate director for research (phone: 617/552-1459; e-mail: sundena@bc.edu).

New TF to study next evolution of education

A new SOA Task Force on Education and Qualification 2005 will study the basic education and qualification issues that surround preparing future actuaries to practice in the dynamic financial services industry. Past President Steve Radcliffe will chair the task force, which will have liaisons from the CAS, CIA, Institute of Actuaries in the United Kingdom, and the Institute of Actuaries of Australia. The task force was formed by the SOA board in September to provide "further refinements to the new 2000 education and examination system" and to prepare for the "next generation of an evolving system."

Some issues the new task force will

study include the skill sets needed by future actuaries and possible changes to the SOA's education and qualification process. Among other matters, the task force will study how universities can be better used in actuarial basic education, whether accreditation of university actuarial science programs is feasible, and whether a single, comprehensive exam option to obtain credit for the joint CAS/SOA exams should be available to students.

"No decisions have been made," said SOA President Norman Crowder, "nor will there be any recommendations made until these matters have been studied carefully, various options have been considered, and member input has been sought. Only then

will the board of governors consider possible actions."

In a related matter, the CAS/CIA/SOA Joint Task Force on Academic Relations plans to release a white paper this February for member comment on a broad range of educational issues. This task force will then dissolve, and a new Joint CAS/CIA/SOA Committee on Academic Relations will continue looking for a stronger academic/actuarial science partnership in broader areas such as research and continuing education. Member feedback on the issues under study by both the task force and the new committee will be sought and welcomed.