

**TRANSACTIONS OF SOCIETY OF ACTUARIES
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LICENSING OR CERTIFICATION OF ACTUARIES

Summary of Report to the Board on November 9, 1959

The report of the Committee to Investigate Possible Certification or Licensing of Actuaries is limited to the situation in the United States.

There is a wide variety of government licensing, certification, accreditation, etc., methods in use for various professions. About the only common denominator is that licensing, etc., are done at the state level, although in some cases a federal agency will have supplementary requirements (e.g., lawyers and accountants desiring to practice before the United States Treasury Department on tax matters).

Some states have licensing or similar statutes which include the activities of insurance advisors who, for a fee, advise how to purchase or how to change or surrender life insurance policies. While it would appear that the purpose behind at least some of these laws is to control the activities of self-styled insurance experts, they are or may be applicable to certain activities of consulting actuaries.

All states have accountancy laws which include provisions whereby a public accountant (in at least some respects comparable in his profession to consulting actuaries in ours) can be certified by a state agency and hold himself out to the public as a Certified Public Accountant (C.P.A.) if he meets the professional and personal requirements of the state for certification.

The accountancy laws are of two types:

- (i) The "permissive" type permits anyone to practice public accountancy or to use any title not prohibited by the law, but only C.P.A.'s, of course, may use the C.P.A. title.
- (ii) The "regulatory" type limits the public practice of accountancy to C.P.A.'s and a "closed group" of only those noncertified public accountants actually in practice when the law was enacted whose status was preserved by a "grandfather clause" or otherwise. Some states also include those noncertified public accountants who meet the requirements for state registration as public accountants—the eligibility therefor being on an "open group" basis, and hence including those entering the profession in the future, as well as those in practice when the law was enacted.

A majority of the states now have regulatory laws, all of which were enacted a number of years after the respective states enacted their initial accounting laws.

While under the "permissive" basis there is no prohibition against an individual engaging in practice as a public accountant as long as he does not claim to be a *certified* public accountant, any government body or private party could, of course, stipulate that for a specific situation, or types of situation, the services of an accountant can be rendered only by a certified public accountant (C.P.A.).

A "permissive" basis for the actuarial profession would be intentionally designed for and limited to those situations in which there is a government requirement that there be an independent actuarial valuation, appraisal, etc., made by an actuary who is recognized by the appropriate government agency as qualified for that purpose. Hence it would recognize that there are many types of services offered by consulting actuaries which probably do not involve a sufficient degree of public interest for a state to exercise its police power constitutionally to require licensing or certification to engage in practice as a consultant. Reference is made to "constitutionally" because a licensing, etc., statute is a restriction on private rights which cannot be done constitutionally if not judged to be necessary in the public interest.

It would appear that the main areas for which there may be a requirement in the near future that actuarial statements be made by an actuary recognized by the appropriate government agency as qualified for that purpose, would be noninsured and deposit administration pension plans for which actuarial information must be filed with the Internal Revenue Service (for income tax purposes), with the Labor Department or a state agency under Disclosure Acts.

The number of such pension plans may be about 10,000. It seems reasonable to assume that the persons who prepare the actuarial reports are concentrated in a limited number of states, and that many, if not most of them, are not members of the Society or any other well-known actuarial organization. Indeed, it is probable that less than 200 Society members are in full-time consulting work.

There are over 60,000 C.P.A.'s at present located in all sections of the country. Hence they total many times the number of persons (even including those with no professional qualifications such as membership in an actuarial organization) engaged (full-time or part-time) in consulting actuarial work.

Even without taking the above factors into account, there would be uncertainty as to the possibility of obtaining in the near future, if at all, the necessary state legislation for certification of consulting actuaries on a uniform basis in even the key states, and of setting up the necessary machinery therefor.

While a state approach for certification of consulting actuaries comparable to that in effect for C.P.A.'s may be theoretically desirable, it may not be a feasible solution—at least in the near future. This prompted consideration of an approach to “accreditation” of consulting actuaries by government agencies as an alternative to state certification.

Under the accreditation approach, any government agency (whether at federal or state level) to which actuarial certificates, reports, etc., are required to be submitted would determine if it is in the public interest that such certificates, etc., be made only by a person whom the agency has accredited as a qualified consulting actuary, with the agency determining the conditions therefor.

The conditions therefor would include character, professional conduct, independence, education, experience and competence. Competence would be tested by written examination, but with such examinations waived because of examinations passed, or membership in, a recognized professional organization. It is this provision for “accreditation” without examination for members of professional organizations that makes this approach basically different and simpler in operation than a “certification” approach. There would be a “grandfather clause” whereby for an initial period established consulting actuaries meeting other standards of competence would also become accredited.

Reference has been made to the major role which the American Institute of Certified Public Accountants has in the arrangements for state certification of public accountants. That organization has stringent professional examination requirements.

The actuarial organization which has as its primary interest the profession of “public practicing”—*i.e.*, consulting—actuaries is the Conference of Actuaries in Public Practice. The Conference includes 80 members and 140 associates. It has no professional examinations comparable to those of the Society of Actuaries or the American Institute of C.P.A.'s. Eligibility for full membership in the Conference is based on such factors as competency, experience and field of activity. Two other actuarial organizations which will naturally have a keen interest in this question are the Casualty Actuarial Society and the Fraternal Actuarial Association.

Precedents in certain other professions indicate that under either the state approach of certification of consulting actuaries or the approach of accreditation by government agencies, practice as a certified or accredited actuary may be limited to services rendered as an individual and not as a corporation or as an employee. The individual may also have to meet certain criteria as to his “independence” in rendering such service. Such a limitation and criteria may have a major impact on consulting services

now being offered by some insurance companies and brokerage firms with respect to pension plans on a deposit administration or trustee basis. For example, the conditions for "independence" might be so stringent that they probably would not permit actuaries on the staff of an insurance company or insurance brokerage firm to certify actuarial reports for pension plans of their policyholders or clients. The possibility of such a situation will probably raise problems for the Society with some of its members, if it advocates a certification or accreditation program.

Instructions from the Board

The foregoing discussion clearly indicated that *the Society was faced with some very basic questions before deciding if and how it should accept a responsibility for representing the profession (nonmembers and members) with federal and state government agencies in developing standards for qualified actuaries for any purpose.* Basically there were three alternatives: (1) to make every effort to exercise primary and direct responsibility, (2) to leave to others the primary responsibility, and (3) to share responsibility, and work with other interested professional groups in developing government criteria for qualified consulting actuaries. It is a tribute to the Board's good judgment and statesmanship that the third was deemed the only practical and promising alternative, and our Committee was instructed to initiate discussions with the Conference, and the Casualty and Fraternal Actuarial organizations.

Summary of Report to the Board on September 27, 1960

This action was reported to the President or other appropriate representative of the Casualty Actuarial Society, Conference of Actuaries in Public Practice, and the Fraternal Actuarial Association. There followed exchange of letters and telephone discussions which resulted in a meeting of one member each of the "certification" committees of the other three organizations and myself.

After an intensive discussion, it was agreed that the most promising course of action was accreditation (rather than certification) by a governmental agency (presumably U.S. Internal Revenue Service or Department of Labor or both), but with some modifications in the basis proposed in last year's report. The purposes of the modifications are as follows:

- a) One of the conditions for accreditation originally suggested was that membership in a recognized professional body would automatically qualify for competence. Such automatic qualification was dropped. The reason for this is that we agreed that the only area of major con-

cern at present is the pension field, and that we should limit our proposals to this field. Hence a member of a recognized professional body who wishes to be accredited would also have to be able to demonstrate competence and experience in the pension field, although not necessarily as a consultant.

- b) The membership of an Advisory Committee to the governmental agency on criteria for accreditation would be individuals appointed by the respective presidents of the four actuarial organizations.
- c) If such an Advisory Committee approach is not acceptable to the governmental agencies concerned, an alternative approach for advising the agency would be the formation of a specialty actuarial group for those in the pension field.

Since at least some phases of the work of the Professional Conduct Committee, the Committee to Review Membership Requirements, our Committee, and perhaps the Public Relations and Education and Examination Committees, are interrelated, it should be recognized that all come under the general heading of the question of the professional status of actuaries. To seek the benefits and privileges of professional status it must be coupled with a willingness to accept certain additional responsibilities and limitations which cut across the assignments of those committees. This led to the recommendation that each actuarial organization coordinate the activities of its respective committees under a parent committee, which would have the responsibility for dealing with the over-all subject of professional status.

Conclusion

The Board of Governors at its meeting yesterday authorized the President to designate a standing or special committee to deal with matters of professional status of actuaries, in the expectation that the other three actuarial organizations—Casualty Actuarial Society, Conference of Actuaries in Public Practice, and Fraternal Actuarial Association—will take similar action. Authority was also given for our Society's Committee to confer with corresponding committees of the other organizations. The purpose, as I see it, is to freely exchange views with the objective of arriving at areas of common agreement and an approach mutually acceptable.

Incidentally, I am convinced that it will take some years to develop and make effective a program of legal and public acceptance of professional status of actuaries and the conditions for an individual to be recognized as a qualified actuary. However, that need not be an obstacle to advocating in the meantime a basis for accreditation by a governmental

agency, such as the Internal Revenue Service, of consulting actuaries for certain responsibilities in the pension field, if and when there is a favorable opportunity to do so.

It is of interest that the Institute of Actuaries is also struggling with new or intensified problems resulting from the growth of pension plans in Great Britain, the role and conduct of consultants, and the need of informal but important contacts with other interested organizations. They were touched on in the Address of the President at the Institute of Actuaries' Annual Meeting on June 27th last.

Problems and questions raised by the absence of legal standards or requirements for determining the qualifications of a consulting actuary will also be discussed in forthcoming reports of the study set up by the Pension Research Council of the Wharton School of Finance and Commerce (*T.S.I. X*, 749-752).

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