



SOCIETY OF ACTUARIES

Article from:

# The Actuary

April 1989 – Volume 23, No. 4

## Contractors cont'd

and, pursuant to CAS 413, must be amortized over 15 years. The government is taking the position (through, in our opinion, a misunderstanding of a provision of CAS 412) that costs calculated for a year but not funded in that year can never be recovered. Thus, a contractor having an over-funded pension plan is penalized if the amount calculated pursuant to CAS 412 is (1) funded, or (2) not funded. Contractors rightly believe that the government's position is inequitable. They will need support from their actuaries to demonstrate the effect of such inequity.

Another problem relates to long-term fixed-price contracts. In such contracts, contractors must estimate their costs, including pension costs, over the life of the contract. The government is concerned that the contractor includes pension costs in the price of these contracts and, because the plan becomes overfunded, does not fund the plan for those years. In such an event, the government believes that the contractor has received a windfall profit. The government's remedy is to seek a voluntary refund or to try to prove that the contractor defectively priced the contract. If the latter course of action is successful, the contractor can face severe civil and/or criminal penalties. To avoid such problems in the future, contractors will have to obtain from their actuaries multi-year projections of (1) CAS 412 cost calculations, (2) ERISA funding status, and (3) likely funding requirements.

### Other problem areas

There are numerous other significant problem areas relative to pension costs. These problems relate to matters such as:

1. Terminated pension plans — The government believes it is entitled to all or part of the "profit" realized by the contractor. A problem relates to how the government's perceived share of the residual shall be measured.
2. Terminated divisions — Contractors often sell or close divisions that were working on government contracts. Pursuant to CAS 413, final accountings must be made. Such accountings often entail making actuarial valuations for the closed division to determine what its assets and liabilities would be, as if it had its own pension plan.
3. Unfunded plans — There are numerous problems in developing

costs for nonqualified excess benefit plans and plans providing for medical benefits for retirees. It should be noted that, under CAS 412, plans that provide medical benefits to retirees and defined-benefit pension plans must be treated as a single plan. These factors create many disputes, and future litigation is probable.

### Conclusion

It is fair to conclude that the single largest area of conflict between contractors and the government relates to the cost of defined-benefit pension plans (and health benefit plans). Many of these problems will be resolved only through protracted litigation. Others might be resolved when the newly legislated CAS Board is assembled. In either event, it is likely that the problems will persist into the foreseeable future. The actuarial community must take an active role in resolving these problems.

Bernard Sacks, CPA, is a Special Consultant with Price Waterhouse's Government Contractor Consulting Service. As a member of the Cost Accounting Standards Board, Sacks authored, among other things, the two Standards dealing with the accounting for pension costs.

### Attention: Enrolled actuaries

If you passed the EA-2 examination in 1977 or 1978, we may have significant information for you.

Under the old Fellowship examination system a candidate could not receive dual credit for both EA-2 and another Part 7 examination. In the Flexible Education System, one may receive credit for all of these examinations. Consequently, a number of Enrolled Actuaries could be close to Fellowship. In some cases, only one 20-credit course is needed. For further information, please call Pat Holmberg at 312-706-3527.

### In memoriam

Albert W. Anderson FSA 1936  
 Mark A. Brunell ASA 1982  
 Larry M. Cohen FSA 1974  
 Carl H. Fischer FSA 1952  
 Norman Harper FSA 1945  
 Geoffrey T. Humphrey \*ASA 1976  
 Renaud Longchamps FSA 1976  
 John N. Miniello ASA 1982  
 Henry P. Morrison FSA 1926  
 K. A. Usherwood \*ASA 1954  
 Douglas T. Weir FSA 1940  
 Charlie T. Whitley FSA 1969

## Change in election procedure

by Harold G. Ingraham, Jr.

At its October 1988 meeting, the following change in election procedure was approved by the Society's Board of Governors:

Prior to completion of the first ballot, the Committee on Elections will recommend to the Board of Governors that up to three designated Board seats be reserved for individuals in areas of interest and/or country of residence deemed underrepresented in relation to the total Society membership. If the recommendation is accepted, the committee will select — for listing on the second ballot — at least twice as many candidates as there are Board seats reserved for underrepresented areas.

Based on a review of the Board's composition for this year's election, the Committee on Elections has recommended and the Board has approved at its January 1989 meeting reserving one designated Board seat for an individual specializing in health insurance and one additional designated Board seat for a pension specialist. Area of employment — whether insurance company, consulting or otherwise — is immaterial.

The Board election will follow normal procedures for the second ballot. After the ballots have been tabulated, the committee will determine whether the designated number of candidates for the earmarked categories would be elected through the normal process. If not, the committee would declare qualified candidates who have the highest number of votes to be elected to the reserved seats. The remaining Board seats would be filled by candidates with the most votes.

An example might clarify this new procedure. Let's suppose that six Board seats are open (as there will be in 1989). As indicated above, two of those seats are to be filled by a health actuary and a pension actuary. The committee will be required to include at least two health actuaries and two pension actuaries on the second ballot. The committee might well include more in each category.

Now suppose in the tabulation of ballots, one health candidate places third, one sixth, with others farther

Continued on page 12 column 1

### Election cont'd

down the list. Suppose also that one pension candidate places tenth, with others farther down the list. The health candidate placing third would be declared elected in accordance with normal procedures. The pension candidate placing tenth would also be declared elected. The other four Board seats in this example would be filled by those candidates placing first, second, fourth, and fifth.

An attractive feature of this new election procedure is its flexibility, in that allocation of reserved categories must be set each year by the Board, and the allocation can be adjusted as the needs of the organization change.

Not included among the potentially underrepresented Board categories at this time is the category of *women* members. Female actuaries today represent over 10% of all Fellows, and about 25% of current new Fellows. Nonetheless, of 18 female candidates listed on the first ballot during the past eight years, only one successfully reached the second ballot (and was elected) — clearly a deplorable result. Shouldn't this also be a reserved category?

Harold G. Ingraham, Jr., Chairperson of the Committee on Elections, is with Tillinghast/Towers Perrin.

### Mail alert

The First Ballots for the Society's 1989 elections were mailed to all Fellows on March 28, and hence should have been received prior to the arrival of this issue of *The Actuary*. To be valid, ballots must be returned to the Society office by May 1.

\* \* \*

The 1989 Society of Actuaries *Yearbook* was mailed to members on February 1. This special Centennial edition features a special section on the history of the profession in North America.

\* \* \*

All members should have received the Report of the Task Force on Strengthening the Actuarial Profession and the first newsletter, called *The Bulletin*, issued by the task force. If you haven't received these mailings, call the Society office at (312) 706-3500.

### Direct dial to Society

Please use the direct-dial telephone numbers listed below to reach certain departments and staff members. Dial (312) 706- before the following extension numbers.

#### Affiliates

- 3513 American Academy of Actuaries
- 3535 Conference of Actuaries in Public Practice

#### Departments

- 3526 Book Orders, Subscriptions
- 3516 Centennial Celebration
- 3579\* Exam Hot Line
- 3515 Exam Materials, Career Recruiting Materials
- 3527 Exam Questions — Nonroutine
- 3583 Exam Questions — Routine
- 3599 FAX
- 3575 Library
- 3540 Meetings
- 3545 Seminars
- 3525 Study Notes

#### Staff

- 3588 Bartels, Bern Registrar
- 3520 Brody, Rachel Director of Operations
- 3548 Canfield, Patti Seminar Coordinator
- 3536 Chastain, Rita CAPP
- 3546 Choyke, Barbara Director of Continuing Education
- 3595 Cole, Linden, FSA Education Actuary
- 3560 Delgadillo, Linda Director of Communications
- 3547 Dimick, Marla Asst. Director of Continuing Education
- 3570 Doherty, Mark Director of Research
- 3580 Holmberg, Marta, Ph.D. Education Executive
- 3550 Kepraios, William Director of Finance
- 3585 Luckner, Warren, FSA Education Actuary
- 3571 Luff, Jack, FSA, FCIA Experience Studies Actuary
- 3576 Mattison, Richard, FSA Education Actuary
- 3561 Montgomery, Diana Staff Editor, *The Actuary*
- 3510 O'Connor, John Executive Director
- 3543 Polodna, Ann Seminar Coordinator

- 3513 Schneider, Susan AAA
- 3562 Simmons, Barbara Staff Editor, *Transactions*
- 3541 Thiessen, Keri Meeting Manager
- 3530 Weiss, Jim Director of Information Services

\*Operative beginning at noon Tuesday following the Friday that grades are mailed.

### Special report enclosed

Enclosed with this issue of *The Actuary* is a synopsis of the Report of the SOA Task Force on the Actuary of the Future, referred to in Gary Corbett's presidential address last year. The task force worked throughout 1988 to study the potential roles for the actuary of the future and the steps that would be necessary to prepare the actuary for those roles.

The Task Force Report was adopted by the SOA Board at its October 1988 meeting. It has also been shared with the Council of Presidents, who in turn shared and discussed it with other leadership of the profession.

The SOA Board established a new task force, chaired by Past President Gary Corbett. Other members of this new task force are Phyllis Doran, Jim Murphy, Mary Riebold and Bob Shapiro. Their assignment is to communicate the report's message to SOA members and work with SOA committees to incorporate the essence of the report in plans for future activities that will prepare and support the actuary of the future.

A questionnaire about the report is also included with this mailing. The task force hopes you will take the time to read the report synopsis and help them with their assignment by sending in your reactions and suggestions using this questionnaire.