

# TRANSACTIONS

APRIL, 1966

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DIGEST OF  
REPORTS ON TOPICS OF CURRENT INTEREST

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RECENT DEVELOPMENTS IN HEALTH INSURANCE  
PROGRAMS IN THE UNITED STATES AND CANADA

*San Francisco Regional Meeting*

MR. C. MANTON EDDY: With the social security amendments of 1965, this country undertook the obligation of reimbursing nineteen million people who had reached the age of 65 for the cost of substantial hospital care. Also, at a modest price, it offered essentially the same group the opportunity of enrolling for supplemental medical insurance benefits, unlimited in amount or duration.

The enrolment under the voluntary supplemental program proceeded rather slowly at the outset, which gave concern to the Social Security Administration. Insurance people would not be surprised at such a result, as they have long known that persuasion and salesmanship are required to lead an individual into any sort of voluntary insurance program, however beneficial that program may be.

With continued support and publicity by insurance companies, employers, welfare and community organizations, the press, radio, and television, the enrolment mounted, until by the deadline of March 31 a total of 83 per cent of all those eligible had enrolled. Congress has now extended the deadline to May 31, and it can be expected that the final count will reach 90 per cent.

The statutory language of the amendments indicates clearly the intent of Congress to preserve and promote high quality health care and to make it available to all over 65. It is also clear that the expenditure of public funds must be on a prudent and reasonable basis, geared always to medical necessity. In such a gigantic operation on a national scale it is obvious that implementing regulations by the Secretary of Health, Education, and Welfare, relating to policy and procedure, must be stated clearly and at length so that the flow of benefits will follow the congress-

sional intent. Even as the initial date of July 1 for the start of benefit payments approaches, there are still many problems to be solved and difficulties to be surmounted. As of April 10, well within the last hundred days before benefits start, these following questions still need answers:

What certification by physicians is required to establish the medical necessity of hospital stay and what and how frequent recertification is required for long durations?

What are the principles for determining exactly what can be included in reasonable cost for reimbursing hospitals and other providers of service?

What are the guidelines for determining reasonable charges by the physician, with consideration to his customary charges and the prevailing levels in the community?

In many instances, hospital-based physicians, under salary or contract arrangements, have supervisory and administrative responsibilities as well as those directly related to patient care. How will reimbursement be divided between reasonable cost under Part A of the amendments relating to hospital care and reasonable charges under Part B relating to physicians' services?

What are the regulations relating to the reimbursement of fiscal intermediaries for their services in payment of benefits and in their auditing, reviewing, record-keeping, and other duties required by SSA? Since Congress has clearly indicated that there shall be no profit, is it possible that procurement regulations can be adjusted so that the fiscal intermediaries will avoid loss?

These questions have been listed not as a complete catalogue but by way of indicating the complexities that face the Social Security Administration, the fiscal intermediaries, hospitals, physicians, and other providers of services. It is impossible to conceive that July 1 will pass without providing rough spots in the initial phases of Medicare. Only the future will disclose whether or not there will be shortages of facilities, physicians, nurses, and other paramedical personnel. Only the future will write the story of the extent of the impact that Medicare will have on existing practices, relationships, and controls in the administration of hospitals and the practice of medicine in the United States.

**MR. GEORGE N. WATSON:** This is a continuation of the report that I gave in Montreal on October 27, 1965.

The position of the federal government remains essentially unchanged, if we are to judge from its public pronouncements. Early in June, there will be meeting of the provincial premiers to discuss the matter of Medicare and other important topics. It is likely that, following the meeting, a decision will be taken by the federal government to proceed with its plans to provide a per capita grant to any province which insti-

tutes a plan of medical insurance complying with four basic conditions. Consequently, it is likely that by July 1 of this year we will know whether we will have a universal compulsory Medicare plan operated by government agencies or whether the provinces will be given some latitude within which to make their own decisions regarding the nature of the plan and how it shall be operated.

The original federal offer was a per capita grant of \$14 annually, but this has been increased, as indicated in recent announcements, to \$17 on the assumption that this amount currently represents 50 per cent of the per capita cost of physicians' services in Canada, taken as a national average. The Canadian Health Insurance Association has submitted to the Minister of National Health and Welfare a brief advocating the acceptance of a "universally available" plan provided 90 per cent or more of the population in any province is covered for some form of medical services insurance as complying with the condition requiring universal coverage. This is the industry's recommendation as against a compulsory plan largely supported by taxation. Three provinces have adopted the "universally available" approach to Medicare, and the developments in the various provinces will now be described briefly.

1. *British Columbia*.—In this province, the provincial government offers individual policies of medical services insurance to any applicant. The rate charged to an individual is \$5 monthly, \$10 for a couple, and \$12.50 for a family, including children. This rate is not self-supporting, and a fund has been set up out of general revenue to cover any deficiencies arising. In addition, the plan provides a subsidy for the needy which is described in my previous report. The enrolment has proceeded well, and many of those previously covered under individual contracts (mostly issued by local prepayment plans) have transferred to the government plan. The insurance companies continue to operate in the group insurance field, and the government action has had no noticeable effect on their operations in the group field.

2. *Alberta*.—This plan continues to operate satisfactorily, and, at the end of the second year of operation, the pooled-risk arrangement for the overage risks developed a loss within expected limits and this was assessed against the policyholders in the province who are insured with the various carriers for medical services insurance.

At the present time, it has been decided to improve this plan substantially in two ways:

a) The first is to increase the amount of subsidy, so that a percentage of the premium for medical services insurance is paid for from provincial revenues provided the income of the individual or the combined income

of the head of the family and his spouse does not exceed certain amounts shown in the following table:

	Amount of Taxable Income (Federal Income Tax Basis)	Percentage of Premium Paid by Government
Nil .....		80%
Less than \$500 .....		50
\$500 but less than \$1,000 .....		25

b) The plan is being extended beyond the cost of physicians' services to include the cost of drugs, private-duty nursing when required, chiropractors, osteopaths, and other paramedical services. This extension, however, will be offered on an optional basis as an extension of the basic plan which provides for only the cost of physicians' services.

3. *Ontario.*—In Ontario, the legislature in January, 1966, passed Bill No. 6, which provides for a plan similar to that in British Columbia. The Ontario government has set up a government agency which will offer individual policies of medical services insurance to all persons in the province, effective from July 1, 1966. The rates at which this coverage will be offered are the same as those noted under British Columbia. Persons with no taxable income will be entitled to a full subsidy in regard to this insurance, if applied for, and other persons with small amounts of taxable income will be entitled to smaller subsidies against their medical services insurance premium. Public assistance cases will be automatically covered under the plan.

This program involves no interference with the insurance companies that are conducting business in the group field as before. It does mean, however, that companies that were offering individual policies of medical services insurance at rates which were in every instance higher than those offered by the government agency will likely discontinue such policies on July 1, 1966. It is too early to determine the extent of the enrolment, but it is presumed that the results will be similar to those achieved in British Columbia. It is not expected that this will have any noticeable effect on the group business.

The government of Ontario believes that the premium rates used are self-supporting, and the Canadian Health Insurance Association has advocated this approach in determining future levels of premiums by this government agency. The government does not expect that these policies will have to be subsidized except to the extent noted for those persons who are deemed, upon the basis of an income test, to be in need.

The plan, which has been called OMSIP (Ontario Medical Services Insurance Plan), provides for a reimbursement to any physician of 90 per

cent of the cost of the services rendered, based upon the Ontario Medical Association Schedule of Fees. It is urged that doctors submit their claims directly to OMSIP and accept 90 per cent as full payment of their fees. However, in many instances, doctors will not deal directly with OMSIP but will submit their bills to the patients instead, who will look to OMSIP for reimbursement. In that case, it is presumed that 90 per cent of the fee will be paid to the doctor, the remaining 10 per cent being the responsibility of the patient. Again, it is too early to determine whether any considerable number of doctors will accept 90 per cent of the schedule of fees as full payment for their services and whether they will choose to deal directly with OMSIP rather than through the patient. The Ontario Medical Association, however, has recommended that they make no agreement with the government plan to accept 90 per cent of the fee schedule as full payment of their fees. Generally speaking, this recommendation of the Medical Association has been endorsed by the membership.

MR. GILBERT W. FITZHUGH: I have spent a great deal of time on this subject, both in Canada and the United States, and I think that it is important for the whole future progress of the medical profession in relation to the health of our children and grandchildren. A large part of the future of this portion of our well-being is in the balance. Therefore, no matter which side you happen to be on, it is a very exciting moment trying to decide which way this program is going to go.

MR. ALFRED L. BUCKMAN: Mr. Watson, you indicated that the various provincial plans in Canada require 90 per cent enrolment to cover the entire population of the particular province and that only 12 per cent of the population of British Columbia is so far enrolled. What is your opinion with regard to the possibility that 90 per cent will ultimately be enrolled in any of the provincial plans?

MR. WATSON: It is true that in the United States 89.4 per cent of the population is covered by some form of health insurance or health services. This figure is not generally appreciated. However, it does not mean a great deal because it is related for the most part to hospitals and is very inadequate in some other areas.

In British Columbia, 81 per cent of the population is covered for some form of medical services insurance by insurance companies and prepayment plans. If the other 12 per cent is added to that, the total is 93 per cent, except that there will be transfers and overlaps. So I predict that

the census at the end of 1966 will show over 90 per cent of persons in British Columbia will be covered for medical care services under voluntary agencies, insurance companies, and government plans.

In Ontario, 85 per cent of the population is now covered by some form of medical services insurance. When 12 per cent is added to that figure, it comes to 97 per cent. After allowing for overlaps, I think that the total will be over 90 per cent.

Therefore, the only question is whether the coverage throughout the 90 per cent is sufficiently adequate and comprehensive.

*Washington Regional Meeting*

MR. C. MANTON EDDY presented the report on United States Medicare that he had previously presented at the San Francisco Regional Meeting.

MR. CECIL G. WHITE presented the report on recent developments in Canada in the field of health insurance, previously presented at the San Francisco Regional Meeting by George N. Watson.

## FUTURE OF THE SOCIETY

There will be reports on topics such as the American Academy of Actuaries, the Canadian Institute of Actuaries, pension developments, and Society committee activity. Following these reports, there will be a discussion on the future of the Society with reference to its role in providing service to its members and to the public. It is intended that the discussion cover areas such as (1) possible revision of the Society's committee structure and assignments, (2) possible greater staff assistance to the Society and its committees, (3) the relationship of the Society to other North American actuarial bodies, and (4) the general structure of Society meetings and the content of the *Transactions*.

### *San Francisco Regional Meeting*

MR. ANDREW C. WEBSTER: Mr. President, I think that the members are aware that it was decided last year to organize the American Academy of Actuaries as an unincorporated association. You will recall that we made an attempt, which failed, to get a federal charter. It was decided at the same time that we formed the unincorporated association to continue the attempt to obtain a federal charter.

The American Academy was organized as an unincorporated association on October 25, 1965, at the time of the Montreal meeting. We had a board meeting of the Academy in December and fixed the annual dues at ten dollars. As of April 12, we have 1,321 charter members of the Academy who have paid their dues. There are also more than 50 charter members who, under the bylaws, are exempt from paying dues because of age.

We have scheduled a meeting of the Academy board for April 29, and we expect to act then on some 450 applications for membership from individuals who were associate members of one of the four organizations. In addition to this, the admissions committee is currently reviewing applications from other members and from a number of individuals who have been practicing actuaries but who are not members of any of the four organizations.

Concerning the federal charter, the subcommittee of the House Judiciary Committee wanted us to appear before them, and a hearing was held in February of this year. This was a very successful hearing. We had four witnesses who submitted formal statements regarding the profession; these statements were followed by interrogation by members of the committee not only of these witnesses but of other people present,

including our counsel. The hearing lasted approximately four hours, and it was the opinion of those of us representing the Academy that this was a very satisfactory hearing.

Unfortunately, on the other hand, nothing seems to have moved. The question was referred to the Department of Justice and also to the Bureau of the Budget. As you may recall, we reported that last September the President vetoed a bill to provide a federal charter for a youth organization with the suggestion that the regulation of these charters should be an administrative rather than a congressional action. This suggestion originated in the Bureau of the Budget so this became a matter for that bureau to handle. We also made a representation directly to the bureau. Although there appears to be no opposition to the federal charter, nothing has happened.

The board of the Academy still feels that a federal charter is important. It is believed that it would carry considerable prestige in connection with many of the states and would enable us to practice before the Treasury in connection with all federal matters, such as the Federal Welfare Plans Disclosure Act and so forth.

If, however, we do not receive a federal charter within a reasonable time, then we think that it would be advisable to start proceedings to obtain a state charter. We understand that, if we get a state charter, this, in turn, does not prevent our eventually obtaining a federal charter.

There is a subcommittee, of which I am the chairman, working on the problem of state accreditation. You may recall that we pointed out in the original discussions in relation to the Academy that we would ask for accreditation in the individual states, either by statute or by administrative order from, possibly, the insurance commissioner of the state. State recognition is something that has to be achieved, even though we get a federal charter.

Thus far, this committee has discussed the matter with New York State, where the Department of Education controls the recognition of the various professions. You may be aware of the fact that the Department of Insurance in New York, including the superintendent, has been most enthusiastic about the Academy and that the superintendent has made speeches in our favor. One of our own members of the New York State Department of Insurance has been in close touch with the Department of Education and arranged this meeting. We were very pleased to find that New York State was most receptive to any of our proposals, and we are pursuing the matter further with them.

The other key states whose requirements we are investigating are Illinois, California, Pennsylvania, and Texas. You understand that it is

desirable that an actuary who is recognized in New York be recognized in work done in any one of the other states as well.

This is a summary of where we stand.

**MR. GILBERT W. FITZHUGH:** The board has approved appointment of a committee to study the future of the Society. It is timely to have a broad-gauged discussion of this subject.

We now have four actuarial bodies in the United States plus the Institute in Canada and the American Academy. We do not want to stumble over ourselves through having too many groups, but our profession must get recognition. We have grown greatly in the last ten years; it is time that we decided what we want to be, what our role is, and where the Society should be going.

Is the Society doing all that it can for its members, and are the members doing what they can for the Society? What are our responsibility and role with regard to the public?

The members of this committee are:

Walter Klem, *Chairman*

Thomas B. Bowles, Jr.

David H. Harris

Victor E. Henningsen

Robert H. Hoskins

Robert T. Jackson

John C. Maynard

Fredrick E. Rathgeber

Paul T. Rotter

Gathings Stewart

William S. Thomas

Any thoughts that you may have after today should be passed on to the committee. We want to be sure that they are given proper consideration, so that the Society can in fact do the best job possible for its members.

**MR. ALFRED L. BUCKMAN:** Can you give a report on what steps have been taken by the Academy to establish examination levels for the various member groups, specifically, the Conference?

**MR. WENDELL A. MILLIMAN:** The Academy's Examination Committee is working on examinations that might be used for admission to the Academy. If this examination procedure is developed, it is expected that the Conference will adopt it. I understand that the Conference has committed itself to adopt a full-scale examination procedure.

**MR. LLOYD G. CURRENT:** The Canadian Institute of Actuaries was incorporated on March 18, 1965. A committee on qualification and ac-

creditation is working on a draft act for discussion with the provinces of legislation relating to the practice of our profession.

Both Ontario and Quebec have defined a qualified actuary as a Fellow of the Canadian Institute of Actuaries, and the Deputy Minister of National Revenue has indicated that a Fellow of the CIA is a "qualified" actuary for Section 76 of the Insurance Tax Act.

Our body has four classifications of membership:

1. *Fellow*.—Any member, resident in Canada, who is a Fellow of the Society of Actuaries, Casualty Actuarial Society of America, Institute of Actuaries of Great Britain, or Faculty of Actuaries of Scotland. Fellowship status is also being granted if a member at the time of incorporation had his Associateship or equivalent examinations in one of the above bodies and has been in qualified actuarial work for at least ten years since attaining his degree.

Fellowship classification will also be granted to non-Canadian residents who demonstrate that they are familiar with Canadian conditions and that they are required to furnish actuarial advice or sign actuarial certificates for Canadian authorities. Each consulting firm or insurance company should be limited to a reasonable number of non-Canadians on its staff who may be Fellows. A fellowship committee has been appointed to rule on these applications.

2. *Member*.—A member of the Canadian Association of Actuaries at the time of incorporation, resident in Canada, but who does not qualify as a Fellow. This classification should eventually disappear.

3. *Correspondent*.—A member resident outside Canada who does not qualify as a Fellow. This classification gives nonresidents full access to our proceedings and meetings and will provide a channel for nonresidents to keep in touch with Canadian developments.

4. *Student*.—A Canadian resident who achieves his Associateship in one of the above bodies after the incorporation of the Institute.

There is one slight problem arising. A Fellow is permitted to use the designation FCIA, and most are already Fellows of the Society, Institute, or Faculty. We do not want to appear overloaded with degrees, so there is some hesitancy in using both FCIA and FSA; on the other hand, we are also reluctant not to use the degree earned by passing examinations. So some members are using both and some use one or the other, but no consistent practice is being followed.

MR. FITZHUGH: The Canadian Institute has discussed the whole question of examination procedure. The Institute has become of such importance in its own right that the Society must consider its own exam-

ination procedures to see that they are designed appropriately for Canadians.

I would hate to think that the Canadian Institute would feel that it had to go off on its own in the examination field or anything else. It is an integral part of our organization.

One very important topical subject where actuaries have a public responsibility is in the field of pensions. This is one more reason for a committee to study the future of the Society.

Our present rule that no resolution or expression of public opinion can be adopted in any Society meeting raises questions. What is our responsibility in this area? Who besides actuaries are in a better position to guide and suggest public policy in the pension field? Who is more qualified than we are to suggest whether or not there should be valuation standards or requirements for vesting or portable pensions?

A wide range of opinions—presumably knowledgeable opinions—exists. Should the rule remain as it is merely because we have these differences of opinion? Is there any new way of generating a consensus helpful to public bodies?

**MR. BRUCE E. SHEPHERD:** We are not constituted or organized in such a way as to arrive readily at a position or opinion on any subject. On many matters of public interest, we do have a responsibility and ought to exercise it. I suggest that there is a possible mid-course between expressing an opinion and standing mute. We ought to have a way of authorizing a committee to express an opinion—as an advisory committee or even more than that—without having a vote of the full membership or following some procedure through the board. A committee's terms of reference could give it authority to express itself on an important subject and have this recognized when important public questions come before legislative bodies, investigation committees, and so forth.

I think that we have too many committees; this is a weakness of many organizations. Every time a new subject arises, those who have the power to appoint committees have an inclination to name a new one without checking to see if the subject can be fitted into the authority of some existing committee. We should endeavor to concentrate responsibility into fewer committees. Perhaps we could handle this by having a "Committee on Committees" to make sure that no committees are appointed unless absolutely necessary and that subjects arising are fitted into the authority of existing committees, even if the authority may have to be broadened somewhat.

MR. HARRY M. SARASON: In the scope of the Society's motto there is no room for opinions. To modify Mr. Shepherd's suggestion, I suggest that all a committee need do after gathering the facts that it wishes to substitute for appearances is to make a statement of the facts—as might have been done by the American Medical Association in regard to cigarette smoking and cancer, i.e., that the statistical probability that lung cancer is caused by cigarette smoking is in excess of 95 per cent—and it will not need to express an opinion. This will impel the committee to do the necessary work to be able to express its conclusions in factual terms.

I want to say that the basis of our examination system is very important. On the basis of fifteen hours a week for twenty weeks a year and at \$5 an hour, some \$4.5 million of time is spent. I submit that we are not spending enough time and thought on the system. We need to admit that we must spend more money to get it straightened out.

Our educational system consists of testing and educating, and we should differentiate clearly between these. Without limiting myself or saying the illustration is good, I suggest that we substitute for our accounting studies, as we have them, a requirement that the student learn how to show cash basis accounts and the balancing of ledger assets against the accrual basis balance sheets and gain and loss and that he also be required to take an elementary accounting course in school so that he will mix with people. Failing this, we should arrange for a correspondence course in this, and in certain other subjects, so that his interest will be broadened.

Students should be required to purchase certain books on certain subjects which would then become a part of their library.

MR. ALDEN W. BROUSSEAU: The Society does a thorough job of studying mortality and morbidity for life and health insurance, but for accident insurance, especially mass programs, the selection factors make the experience data much different than they are on a population basis or for individual employer-employee group insurance.

I suggest that we make some studies along this line, or encourage the Casualty Society to do so, or, if they are doing so, to let us know what they are doing.

MR. FITZHUGH: To second Mr. Shepherd's last remarks, let me say that my company appointed a committee on committees and it found that we had 69 committees. In one week, these 69 committees were cut to 28. This illustrates what can be done. We found that a lot of them were doing nothing.

MR. PRESTON C. BASSETT: There is a real need for us to develop some means of expressing our opinions as a body. I am a member of the committee formed several years ago to work on the problem of accounting for pension costs under the chairmanship of Frank Griffin. The accounting profession was seeking a method and rules to be followed to account for the costs of pension plans on corporate financial statements. At one stage they were proposing that the accountants establish the actuarial assumptions and methods and that the actuary perform the calculations. Our committee was charged (in an indefinite way) with working with the accountants and keeping the Society informed. We have been doing this for over two years. The accountants have come a long way from their initial position toward developing a workable solution.

Recently a committee of the Project Advisory Board of the American Institute of C.P.A.'s asked actuaries to express their opinions. Frank Griffin and I were asked as representatives of our committee and John Miller and Ray Peterson as representatives of the other Society committee on pensions. Frank was prevented from attending, so I felt a great responsibility in being the one person at this meeting who had concentrated on the accounting problem over the past several years. I could express only my personal opinions. I would have felt better, and it would have been more effective, had I been able to make my remarks as an expression of the opinion of the Society or at least of the committee.

MR. FREDERICK P. SLOAT: I have been working with a committee of the Accounting Principles Board, and I have met with the board on occasion while it considered pension cost accounting. I have been careful not to appear to express opinions of actuaries as a group; I have acted chiefly as a technical interpreter. In this way, somebody has been with them to give them some of the actuarial concepts of the subject that they are discussing.

I feel that the atmosphere has changed considerably in recent years; that is, any seeming attitude of accountants that the actuary is of secondary importance in matters in which the accountant is interested has completely disappeared.

The Accounting Principles Board will get a draft of an opinion on accounting for the cost of pensions completed soon, and it will come out as an "exposure draft." It will be distributed widely and be generally available so that everybody will have an opportunity to study it. The board will welcome comments on it, all of which will be considered before it issues its final opinion.

MR. FITZHUGH: I have occasionally heard that the Society's meetings are run for the benefit of actuaries of the larger insurance companies. The program committee works hard to make the meetings of interest also to those in consulting actuarial firms and smaller companies. We have endeavored to make these professional meetings, not trade association meetings.

Has the Society failed in this respect? Are these meetings of interest? Can they be made of more interest to any of the groups within the Society?

MR. ALAN N. FERGUSON: I would hope that, in some of the areas in which the Society has committees, it could express itself publicly. For example, I would like to see the committee on pensions publish a brief objective nonpartisan report which could be given to people who help form public opinion. I recall that the British Institute published a report on the proposed national pension plan in the United Kingdom, which I think was well accepted.

Perhaps in view of the amount of time involved, consideration should be given to some sort of compensation for committee members.

MR. SARASON: In regard to this accountant's recommendation and the dispute with actuaries, I think that one of the most pertinent types of information to fit into that suggestion, one of the most important things any member of the Society can do or that the Society as a whole can do, would be to prepare reports showing the contributions necessary in a mature population when the funding has been done by any of the methods which the accountants would like to have considered or which they seem to approve.

MR. JAMES F. A. BIGGS: Mr. Sloat indicated a procedure whereby the accounting profession apparently reaches and agrees upon positions. Is this a possible solution for the Society? That is, study by a committee, distribution to the membership for its comment, and ultimate adoption based upon the comments from the membership. With respect to the charter of the Academy, I would like to ask Mr. Webster if it would be of help to him in his efforts with Congress for each member of the Society to contact his congressman.

MR. WEBSTER: We had a number of the members contact their congressmen on the House Judiciary Committee and on the subcommittee. Congressman Rogers from Colorado was chairman of the subcommittee,

and an actuary from a Denver company who knows him very well testified at the hearing. We had a favorable hearing. I doubt that writing your congressman will help at this point. We are not a large body, and our probable influence over any member of the Congress is small.

We have talked to the Administration and to the lawyers on the staff working in connection with the subcommittee, but we are still on dead center.

MISS JOSEPHINE W. BEERS: On the point of suggesting that the Society express an opinion, is it humanly possible to formulate an opinion which a reasonable number of the members would recognize as the opinion of the Society?

MR. FITZHUGH: This Society is made up of the most individualistic type of people that I know. Therefore, it would have to be a pretty broad-gauged opinion.

MR. WALLACE R. JOYCE: The matter of the CIA's expressing an opinion or allowing a committee to do so has been discussed at great length by the Institute, which, of course, is a much smaller and less unwieldy body than the Society. The Institute has a device under which a committee might present a report as coming from a committee which had been appointed by the Institute to study a particular question. The report would be signed by the committee members but not presented as necessarily the opinion of the complete membership (or even a majority opinion) of the CIA.

This does seem to be one way in which opinions on matters about which actuaries should have the best knowledge might be presented to congressional bodies or to the public so that the force of our professional opinions might receive some publicity, some weight.

The Society should consider whether it is necessary to design mechanics for presenting or allowing this kind of report to be given by a committee of the Society. I think that it would be useful.

MR. RICHARD DASKAIS: One problem is that no matter how we limit the authority of a committee, outsiders think that it is speaking for the Society. Much of this discussion is based on the premise that a committee report is the only available vehicle for disseminating the views of the majority of the committee. This is not the case. Papers and informal discussions at Society meetings would be appropriate.

MR. BROSSEAU: There is a difference between a research report that can express a range of views and weights and probabilities attached to those views and a conclusion in citing the facts; that is, there is the difference between that kind of research report and a kind of resolution that the AMA would put out, which is much more political. I support the idea of a research report coming out of a preliminary report on an exposure draft but not a resolution of the AMA type.

MR. HOWARD H. HENNINGTON: I want to refer to the accounting-committee situation which has already been mentioned.

The Society Committee To Study Pension Accounting recently prepared a report to the Board of Governors. An early draft of the report contained a recommendation to the board that it authorize the committee to send a copy to the Accounting Principles Board of the American Institute of Certified Public Accountants as a report of a committee of actuaries. In the final report that recommendation was dropped out. It could still be revived, however. If the Board of Governors agreed, I think that it would still be desirable for the Committee To Study Pension Accounting to send a copy of its report to the Accounting Principles Board.

MR. FITZHUGH: The report was not unanimous, but it reflects a degree of opinion reached by the majority. Much of it would be valuable to present to the Accounting Principles Board. If it were published as a committee report and generally available to the membership, it would be valuable to those interested, especially Society members.

On the other hand, if it were merely available to the membership and any others interested, such as the Accounting Principles Board, this would be a way—although not too formal—that picks up Mr. Brosseau's remarks. It is not a voted conclusion of the Society, but it is the opinion of a representative group.

MR. FERGUSON: I do not understand why we are so concerned about a lack of unanimity. We want facts and demonstrations; there cannot be too much exception taken to these. Presumably, we choose mature, intelligent officers in the Society who have sufficient discretion to choose, in turn, well-qualified and balanced committees.

MR. JOHN C. WOODY: The term "fact" has been used rather loosely in this discussion; facts are very slippery things. If it seems that there is some area in which the Society should have something like an official

opinion, the committee device might be useful; but, to give such opinions more weight, the president's committee appointments might be confirmed by the Society as a whole.

MR. WEBSTER: On the subject of committees, if anybody could tell me how many of them could be dissolved without wrecking the Society, I would like to know, because most of them—once the Education and Examination Committee and the committees assembling statistics are taken out—are concerned with the functioning of the Society. I have long desired some means of communication other than the *Transactions* between the Society and its members—particularly its younger members. Do some of the younger members agree? This might give us further ideas on future activities with regard to the *Transactions*.

MR. COLIN E. JACK: One rather important item was overlooked in all the talk at the time of the establishment of the Canadian Pension Plan as to whether the Canadian Institute or a committee should take a view. This item was that the actuarial aspects were pretty well adapted by actuaries appointed to prepare reports for their respective bodies. They could differ with regard to some of their assumptions, but the fundamental question upon which leaders in life insurance and other lines differed had to do with whether the pension plan should have a socialistic or capitalistic approach. This was not fundamentally an actuarial question. While actuaries should have spoken up as actuaries on actuarial points, the fundamental question was not one for an actuarial body of opinion. I do not think that there should have been an expression from the Institute on the old social question of whether or not there should be a pension plan.

Let me refer to the possibility of some separation in relation to the Institute. I hope that this will not arise because, speaking as a Canadian, I have enjoyed the social and professional relations with friends from the United States. If a separation did come, it would be over the question of examinations, and, therefore, something should be done to prevent it.

MR. FITZHUGH: We have a committee to study the possibility of new actuarial publications, but I presume that Mr. Webster wanted to hear from new members relative to the continuation of the *Transactions*.

MRS. DAPHNE D. BARTLETT: I have been receiving the *Transactions* now for a year and a half. I get it and I think, "What a lot of money is involved here." Perhaps the Associates should not receive copies of

the *Transactions*. Surely if there is anything in it in which the Associates are interested, the Fellows in their companies will notify them of it. I have had enough of the *Transactions* to study in relation to examinations without having to read those coming out twice a year.

*Washington Regional Meeting*

MR. JOHN H. MILLER: As you know, the Academy was organized as an unincorporated, nonprofit association last October. All Fellows of the four sponsoring organizations, resident in the United States, who have not declined membership or resigned are automatically members of the Academy. Also a considerable number of Associates of the four organizations have submitted evidence of substantial actuarial experience satisfying the bylaw requirements and have thus qualified for membership. Other applications are being processed.

The long-awaited hearing on the bills to grant a federal charter to the Academy was held on the sixteenth of last February before a subcommittee of the House Committee on the Judiciary chaired by Congressman Byron Rogers of Colorado. Prepared statements were submitted to the committee by three actuaries: Dorrance Bronson, Joseph Linder, and James Hunt. Mr. Paul Bailey introduced the scheduled witnesses. Mr. William Groves, president of the Conference, and I were there to answer some of the committee's questions.

In addition to the actuaries who testified, we were fortunate in having the assistance of Dr. Dan McGill, chairman of the Pension Research Council, as an authority in the field of pensions but not one personally concerned with the interests of the actuaries in this legislation. He outlined the history of the growth of the private pension plans, the increasingly important role of the actuary, and the public interest in the quality of actuarial service. Dr. McGill was also very helpful in answering the many questions of the committee.

Mr. James Donovan, our counsel, spoke on behalf of the Academy and answered questions from the committee on legal aspects.

We were very grateful to the committee for its long and careful consideration. The hearings went on into the afternoon and took about three and a half hours, as the committee had many pertinent and relevant questions.

However, there is little prospect of passage of the bills at this time, mainly because of questions raised by executive departments of the government. As you may know, a bill to grant a federal charter to another organization last year was vetoed by the President, not because of the merits of the organization but because of questions of govern-

mental policy, that is, should Congress be involved in incorporating organizations, and, if so, what should be the rules and criteria?

While we are now fully functioning under our Articles of Association as an unincorporated body, our attorneys advise us to become incorporated. Since federal incorporation will, at best, be delayed, we are considering state incorporation. The board of the Academy, which meets tomorrow afternoon, will consider incorporation in Illinois. Preliminary steps have been taken there so that, if the vote is affirmative, all necessary actions can be completed. It has been ascertained that this would not in any way inhibit the ultimate granting of a federal charter, so we feel that there is nothing to be lost and perhaps much to be gained by this procedure.

While this has been going on, Mr. Webster and his committee have been working in the area of state legislation and regulation on accreditation. Mr. Webster has a brief report to make on that aspect of the situation.

**MR. ANDREW C. WEBSTER:** As Mr. Miller told you, the Committee on State Accreditation has been doing a little work. You may recall that irrespective of the charter, whether it be federal or state, we still must get recognition in the various states. This recognition should preferably be attained by statute or, in the absence of statute, by some administrative order that might be issued, for example, by the Superintendent of Insurance.

In any event, the committee has discussed the matter at some length with the New York State Department of Education. In New York, the Department of Education is responsible for the licensing or certification of the various professions. As most of you know, the New York Department of Insurance under Superintendent Stern has been very enthusiastic about the Academy, and one of our own members, Mr. Dubuar, who is in the Department of Insurance, has done a good deal of spade work with the Department of Education. When we talked with them, we found that they were most receptive to our proposals for state accreditation. There are some technical difficulties that the board of the Academy will have to discuss tomorrow, but, as far as New York is concerned, there should be no difficulty in obtaining accreditation.

We are also investigating the requirements of the other states, particularly Illinois—since we are applying for a charter there—California, Pennsylvania, and any other states that we think are important in obtaining this accreditation.

You realize that the state legislatures do not meet every year, and

in those states where they do not meet we shall probably try to get some form of administrative order, if we can.

This may be a long road that we have started on, but you can see that it is important. With the charter, we think that we will be able to go forward as speedily as the legislatures and the departments will permit us.

**MR. RICHARD HUMPHRYS:** The Canadian Institute of Actuaries came into being in March of last year by virtue of a special act of the Parliament of Canada. All the members of the previously existing Canadian Association of Actuaries became members of the Canadian Institute at the moment it came into being, and the Canadian Association was dissolved.

The creation of the Canadian Institute of Actuaries was the culmination of several years of intensive work by a committee of the Association. The motives and driving force behind this move were much the same as those that pressed actuaries in the United States toward the formation of the American Academy of Actuaries, namely, the desirability of achieving legislative recognition of the actuarial profession and of seeking the adoption of formal licensing or accreditation statutes that would establish standards of actuarial training and competence.

In Canada, we had another objective also. This was the desire to improve the strength and prestige of the main Canadian actuarial organization. It would thereby be better able to draw together the actuarial profession in Canada and would provide a better means for the profession to focus its attention on particular Canadian problems and developments.

The creation of a stronger and more formal organization of Canadian actuaries than had previously existed is one step in a long evolution of the organization of actuaries in Canada. The first Canadian organization in the profession was the Toronto Actuaries Club formed many years ago. As the interests of the profession in Canada widened, the Toronto Actuaries Club became the Canadian Association of Actuaries, still unincorporated but with a broader scope and a membership that included practically all, if not all, the qualified actuaries in Canada. The incorporation of the Canadian Institute is thus another step in this evolution and reflects, I think, the growing economic and social development of Canada. We have been increasingly creating our own social and economic environment over the years in areas that are of particular concern to the actuary. In these circumstances, one would expect a steady evolution

in the development of the profession and an increasing attention to particular Canadian circumstances and problems.

I should say at this point that in the formation of the Canadian Institute it was not the desire of any of us in Canada to lose our close connection with the Society or to create a split between the Canadian organization and the Society or the Casualty Actuarial Society. We all value very highly the international connection that has been such a strong and desirable feature of the Society on this continent, and I know that all of us in Canada would be sorry to lose it.

In connection with moves toward licensing and accreditation, I should say first that in Canada the constitutional power to license the practice of professions lies with the provinces rather than with the federal government. We sought incorporation at the federal level because we wanted to emphasize the national character of our actuarial organization and to have it include all the qualified actuaries in the country. Also, we knew that in a number of the provinces there are no qualified actuaries and, consequently, if we were attempting to seek a standard of actuarial competence and training it would be difficult to do so on a provincial level.

Our general approach is to be in two stages. First, we shall seek accreditation in all relevant statutes, both provincial and federal. This involves having these statutes define an actuary as a Fellow of the Canadian Institute. We have had some success in this regard in that this definition has been adopted in the new legislation relating to the supervision of employer-employee pension plans in Ontario and Quebec.

The next stage is one of licensing. In this connection we have in mind proposing that each province establish an actuarial licensing board that would have the authority in the province for licensing actuaries. We would suggest that Fellowship in the Canadian Institute be regarded as an adequate level of training and qualification for licensing, but we shall likely suggest that the provincial licensing board have authority to accept other comparable qualifications as it may think fit.

So far, these moves are in the preliminary stage only, and we have not made any formal approach to provincial authorities with respect to licensing, although informal discussion has been carried on in some cases.

We are conscious that, in our efforts to have legislative authorities accept Fellowship in the Canadian Institute as a standard of actuarial qualification and competence, we must take care in prescribing the conditions and qualifications for achieving Fellowship in that body. Our bylaws at the present time provide that any new member accepted into the Institute must be a Fellow of the Society, the Casualty Actuarial Society, the Institute of Actuaries of Great Britain, or the Faculty of

Actuaries in Scotland or must have passed the examinations of some other actuarial organization where, in the opinion of the Council of the Institute, the examinations are the equivalent of those required to attain Fellowship in one of the named organizations. Any future members accepted into the Institute will automatically qualify as Fellows of the Institute.

With regard to members accepted into the Institute on the day of its formation, some have the qualifications equivalent to those required of a new member and they automatically become Fellows of the Institute if they are resident in Canada; others have Associate status in one of the named actuarial organizations. The latter can achieve the degree of Fellowship in the Canadian Institute if they have had at least ten years of experience, since achieving their Associateship, of a nature and quality satisfactory to the Council. This, as you will recognize, is a kind of "grandfather" clause and applies only to persons who were members of the Canadian Association and thus became members of the Canadian Institute on its formation.

Nonresidents can become Fellows of the Institute if they have the necessary actuarial qualifications outlined above and if, in addition, they have some knowledge of the Canadian laws and economic environment relative to the practice of an actuary and some business connection that requires them to give actuarial advice in Canada. Other nonresidents having actuarial qualifications may become Correspondents of the Institute. This status entitles them to receive publications of the Institute and to attend meetings.

Regarding the future, our next major step lies in the approach to the provinces concerning licensing or accreditation. On the horizon, however, there are a number of additional problems that will require attention. During the work leading up to the formation of the Institute, it was generally thought that the idea of the Institute's having its own examinations might have to receive study at some point in the future but not for a long time. Since the Institute has been formed, however, we have found that there is somewhat more interest in this general aspect than we had contemplated. I think that it would generally be considered desirable to continue the present practice of looking to the Society or the Casualty Society as principal vehicles for actuarial training; if it is thought that the Institute should have any examinations of its own, they could perhaps be developed as an alternative near the end of the syllabus or in some cases as an additional examination.

We have a number of more local problems, such as the establishment of a secretariat, a permanent staff, and so forth.

Our bylaws make provision for the possibility of affiliated organizations, and in the future it may be that some local clubs will be formed in addition to those already existing. Another illustration is our Younger Actuaries Committee, which is active in holding special meetings of interest to younger actuaries. At these meetings, topics of general or theoretical interest are presented for discussion. The committee attempts to stimulate a lively interchange on the basis of rather fewer members at the meeting than would be the case at a full meeting of the Institute and in an atmosphere of exchange of ideas rather than a discussion of company practices or policies. This has been quite successful, and, I think, will be continued. It may at some time lead to the formation of a Younger Actuaries Society.

MR. GILBERT W. FITZHUGH: It seemed to the board that right now—with the Academy being formed and all the current discussion, and the growth in our size—is a good time to look at ourselves. Are we going in the right direction? Should we change? The board, therefore, has approved a committee to look into the future of the Society.

How can we best serve the public? This is our major responsibility if we want to be a professional body.

Of course, to serve the public properly, the Society has to serve its members properly. That is a two-way street too: How can the members serve the Society? Are these big meetings the best way of doing it? The smaller spring meetings? The panel discussions?

This committee is to look at everything from the bottom up on a fundamental basis—nothing of a detailed committee structure but where the Society is going and whether we should reconsider and possibly change our direction a little, a lot, or not at all. The committee will welcome any suggestions that any of you may have.

To start the discussion, how about the fall meeting? Has it gotten so big that it is a waste of time to go to it? The things that go on in the aisles and in between sessions sometimes are more important than what goes on in the meeting itself. How can we make these meetings better? How can we make the *Transactions* better?

MR. HOWARD H. HENNINGTON: On the general structure of the Society meetings, we could examine the structure of meetings of other organizations similar to ours in size. One thing that other organizations do successfully is to hold workshop sessions. We have had simultaneous sessions—two or three at a time. We should try twenty or twenty-five simultaneous sessions in workshop structure, getting small groups of

twenty to thirty in attendance. This would give us an informal opportunity for give and take. We also would have a variety of topics so that all would have a chance of finding something of direct interest. Topics could be explored in depth instead of only superficially.

MR. BRUCE E. SHEPHERD: I like the suggestion about workshop sessions, but they take a tremendous amount of organization. In addition to a large number of rooms, there must be a preplanned attendance record for each, to avoid having too many in one session and to distribute the attendance among the various workshops.

Where these workshops have been tried, it has been found that all this preparation is necessary and calls for a good effort by paid staff, which the Society does not have in quantity. This new committee should consider whether we should have an augmented staff to accomplish things that we cannot do on a volunteer-by-the-member basis.

MR. REA B. HAYES: Have you ever had the experience of trying to look up a talk or a pet subject or of checking to see whether a possible topic for a paper or an actuarial note has ever been done? We need some kind of central service of this kind. As a suggestion, the Society with a larger staff could be of service here. It perhaps needs the co-operation of an actuary and a librarian. To index available literature would take hundreds of hours, too much for one man or even one company.

MR. EDWARD A. DOUGHERTY: My company is located in Cincinnati, Ohio, where there are two other fair-sized life companies and a fourth fairly small one. This is the extent of our actuarial contacts at home.

Howard Hennington said, "I don't know whether it is me or the Society." Many of us are shy to speak because we feel the shortcomings may be our own rather than those of the Society. There are many things that we do or try to do for which I feel we have insufficient knowledge in a small company without a large research staff. Questions are arising continually for which I cannot find answers in the *Transactions* and I feel the need for some place to go for information. Although friends in larger companies are very generous in helping out and in answering some pretty intimate questions, I feel that there should be a central clearinghouse. Should the Society have a research staff of its own? Is there more research going on that should be reported?

I hope that the committee will also consider the view that, while the meetings are well done and planned, much of what goes on does not

relate to my daily work. There is little in our meetings or in the *Transactions* that tells me how to do my job.

I really do not know what to suggest as an answer to my criticism, but is it a thinkable recommendation for the Society to have a staff of twenty men headed by a major research actuary for \$35 or \$40 thousand a year?

MRS. ANNA M. RAPPAPORT: Many of us have common interests, but we meet possibly once in a meeting and do not continue to share a common interest over a long period of time. Perhaps we could form some special-interest committees simply by having a member, or three or four members, announce in a Society letter a willingness to form a committee to study a particular subject. The announcement would invite others to contact the originator.

MR. WILLIAM A. DREHER: We might establish committees that would be more responsive to the Society's external public—especially committees that exchange information and discuss problems of mutual interest with other professions. The American Institute of C.P.A.'s has several committees of this type. We could improve our communications with other professions if we adopted a similar procedure.

A good deal of the interchange between the accounting and actuarial professions and the insurance industry has not been properly oriented. Too often the discussions have been between the C.P.A.'s and the industry, often represented by officers who are actuaries. In my opinion it would be better if the dialogue on many matters was between professional actuaries and professional accountants, both of whom serve the insurance industry.

MR. NAFTALI H. TEITELBAUM: The question of how the Society can help its members includes the question "How can the members contribute to the Society?" The following might be a solution to this dual question.

Just as a questionnaire is submitted to insurance companies whenever the Society runs a mortality study, the program committee would submit a questionnaire to consulting firms and insurance companies requesting suggested topics for discussion. The Society would co-ordinate the replies, and selected topics submitted by companies in the area would be used at regional meetings. This system should produce topics of interest and increased personal discussions.

MR. CURTIS D. GREENE: The organization required to run fifteen or twenty-five separate simultaneous sessions is a serious problem. Yet the planned subjects that we use in our simultaneous sessions are not those that are discussed in the aisles and halls. The planned topics are not what we need as individual actuaries.

Could we organize something like room-hopping sessions in which subjects are covered in specific rooms? The organization would amount to obtaining rooms and securing one or two people who are interested in and knowledgeable about the topic and prepared to stay in one location. Published preparation would simply be a listing of rooms and the topic that would be the central interest in each. The rooms need not be formal meeting rooms but simply hotel or suite rooms.

A take-off of this would be the division of a large room into a number of booths, as is done in expositions and trade conventions. This subject-hopping pattern might be arranged in this way rather than in separate rooms scattered down one or more halls. People could move about to listen or inquire about things in which they are particularly interested. There would not be dependence on a discussion leader but on having a site for mutual discussions between people who were not necessarily prepared in advance but simply present to share their knowledge.

MR. HARWOOD ROSSER: I have partial answers for Mr. Dougherty and Mr. Hayes. I suggest that they give thought to the panel notes put out by the Education and Examination Committee, for these notes are up to date with the latest developments and include a table of contents. The *Actuarial Record* published by Ralph Edwards has an expanded index of what is in the *Transactions* and sometimes will tell whether a particular article is of interest without one's having to refer to the publication proper.

MR. JOHN K. DYER, JR.: Mr. Hayes spoke of something in the nature of a cumulative index for the *Transactions*. Mr. Dreher talked of better communication with other professions. Both of these suggest that maybe our real basic problem is having better communication among ourselves, including the other actuarial groups in this country and elsewhere. If there is to be anything like a cumulative index of actuarial writings, it should be international or world-wide in scope.

If we could have someone do a job on all actuarial writings similar to that done by the Institute of Life Insurance in its *Sources of Insurance Statistics*, we would have something of real value to potential authors of papers. This type of thing must be continuing, however, and this brings

me to the matter of a profession-wide publication. I conceive of an actuarial publication like those that exist in the medical, accounting, and legal professions. These are commercial publications that accept advertising and keep all members up to date on what they are doing and what other branches of the profession are doing. A publication such as this could keep a cumulative index up to date.

**MR. ROBERT F. DAVIS:** It is time that the Society realizes that even at regional meetings we are getting so big that the attendance cannot be split into two groups with the expectation that the people in each group will have common interests. We must be willing to meet in smaller groups which do not necessarily need to have all their discussions laid out ahead of time. It could be more spontaneous. As an alternative to Mr. Greene's arrangement, we might make some improvements on the reception.

If we are to have something like a fair with booths, the reception might be the place. People knowledgeable in certain areas might be appointed by the program committee in advance to stay with a booth to which a particular subject has been assigned. These booth assignments should be rotated throughout the entire membership as much as possible, so that in a four- or five-year period everyone who had common interests would have a good chance to spend some time together.

**MR. WINFIELD C. BURLEY:** If the problem of smaller sessions is basically a mechanical one, I suggest that we look into the possibility of meeting at a college or university that is well equipped with rooms, auditoriums, and other facilities.

## LONG-RANGE PLANNING

### *Washington Regional Meeting*

To what extent and by what means are long-range plans, designed to achieve pre-established goals, being developed and used as management tools in the life insurance business?

**CHAIRMAN ALAN M. THALER:** The subject of this panel is somewhat unusual for a meeting of the Society of Actuaries. As actuaries we tend to be concerned with many details of the life insurance business, and these details are important to the sound financial management of our companies. Our absorption with these details, however, has been such that the Society as a body has paid little attention to the over-all problems of life insurance company management. More and more the management process is employing scientific techniques for purposes of planning and control, and the time is overdue for actuaries as a group to become identified with the broad problems of insurance company management.

It is very easy to recognize that the idea of developing long-range plans which can be used to guide the future course of management is a laudable way to operate. To actually develop such plans and to use them in a practical way are not so easy. For example, there can be many roadblocks to the formation of a planning organization within a company. Even after such an organization is formed, there is no assurance that the planning services offered will be either welcomed or used. The process of developing plans becomes very expensive, and the question must be asked whether the results are worth the cost. It is possible to apply the planning process to nearly every phase of a company's business, for example, to questions relating to future field force and home-office staffing, to problems of our future product design and the future nature of policyholder service. Planning in such areas involves not only the goals and objectives internal to each company and to the life insurance business but must take into account future changes in the environment external to our business.

We have assembled today, to lead off our discussion, a distinguished panel of three men who are convinced of the practical value of long-range planning in the life insurance business. The first gentleman, a lawyer by profession, is Robert J. Lamphere, a vice-president of John Hancock Mutual Life Insurance Company and in charge of corporate planning for his company. The other two gentlemen are members of our Society with a special interest in corporate planning. The first is

W. James D. Lewis, vice-president for individual insurance for Confederation Life Association; he was director of corporate planning for his company before receiving his present assignment. The other is Morrison H. Beach, senior vice-president of Travelers Insurance Company, in charge of research, planning, and control. He has had a big role in setting up the planning system for his company.

We will give each of these panelists an opportunity to make a brief statement concerning the planning process as he views it in his own company. We hope that what they have to say will stimulate some of you in the audience to come forward and contribute your views to this discussion and others of you to ask our panelists questions which will challenge their positions.

**MR. ROBERT J. LAMPHERE:** Top management of any life insurance company over a period of time will make a variety of decisions that will influence corporate direction and success. Planning seeks to ensure that these strategic decisions are made with the knowledge of their importance, after a careful consideration of alternatives, including analysis of applicable external and internal factors. John Hancock, in its formal corporate planning, endeavors to analyze periodically where it stands in the world of today and where it wants to go in the future. Our planning endeavors to map a course for our entire organization, in order to move down a road which stretches out into the future. This road starts with some broad management philosophies and objectives to carefully established goals and then to specific plans for every element of the company.

We adopted certain principles in connection with our self-analysis. These are:

*First*, a company needs to have continued growth if it is to serve its policyowners and its employees and remain a dominant force in the economy.

*Second*, the growth and success of a life insurance company depend directly on the nature and quality of the service it provides to policyowners and to business and public communities.

*Third*, in the period ahead the quality of service will be of greater importance than the other two main factors of quality of product and relative price, inasmuch as product line or price cannot give a company the same competitive edge as in the past.

*Fourth*, excellence of service depends directly on the performance of people. Growth and development of individuals, therefore, will be of paramount importance in the achievement of company growth and success.

Please note the emphasis on people. A life insurance president, a chief actuary, a planning officer, and other top officers can have philosophies,

objectives, goals, and plans of the finest and most specific nature. But you move a total organization only if you achieve what Richard Neuschel of McKinsey and Company calls unity of shared purpose. In our planning for the future we are endeavoring to imbue our people with the need for individual excellence in all its forms, as John Gardner, now Secretary of Health, Education, and Welfare, says. This conception of excellence means that whoever I am, or whatever I am doing, some kind of excellence is within my reach.

Within this management philosophy, we took our specific goals for the next fifteen years and a broad motivational program that we call "Growth through Excellence" and began extensive meetings with our various management levels. This week President Slater has finished some forty-five field meetings through which he has told our entire field sales force the details of our objectives, goals, plans, and concepts, the emphasis being on the compatibility between corporate and individual objectives. The challenge to the individual is for participation, performance, commitment, and dedication to excellence.

Now, lest anyone think that all we are talking about is a management philosophy, let me add that I have here sketched only the perimeters of our planning. Each department of the company has definite one- and five-year plans. Actuaries have assisted in translating sales goals into work volumes for issue, surrenders, loans, claims, and the like. Corporate objectives become more specific as they move down the ladder in departmental, divisional, and finally individual objectives. We are measuring progress against plan, and the total builds up into a system for managing the entire company.

It is also interesting to see examples of the influence of corporate goals and objectives on decision-making in the various departments of the company. To a degree, this is an intangible influence; yet in conversations you hear of its effect and in the results you see the tie to the broad framework.

Planning as a process is continuous and evolutionary. Top management is providing the direction, departmental management the means, and individual managers the action. The objectives for the company, the functional units, and individuals are result-oriented, specific, and measurable.

In summary, let me quote Frederick A. Kappel, chairman of the board of American Telephone and Telegraph Company, in a speech on leadership; he said:

... purposes must be thought out anew. The goals must be articulated . . . . The manager must work hard himself to discover the road. Somebody else—the

chairman, the president, the planning department—cannot do this for him. What is essential is that people in all departments, and at all levels of management, join in the pursuit of purpose.

**MR. W. JAMES D. LEWIS:** At Confederation Life long-range planning has been a major factor for the past five years, and in the past two and a half years has represented the major basis of all management action. The concepts of long-range or corporate planning within Confederation Life extend to all areas of operation and to all functional departments within the organization.

The basic ideas are relatively simple and involve four major phases.

The first phase is a precise definition of company objectives for a decade hence. These objectives are expressed in terms of growth and profitability by line of business and by major geographic area of operation. The growth objective is expressed in terms of market share measured by total premium income.

Second, a step-by-step agency plan to achieve the growth objective is developed. This involves the extensive use of computer models, and the details of the emerging agency plan specify manpower objectives in terms of recruiting and survival, average production rates per agent, and the persistency objectives for the business written.

Once this agency plan has been developed, the third phase involves the development of so-called supporting objectives. These include expense rates, interest levels, and mortality levels, all designed to ensure that the attainment of the agency plan can be accomplished within the limitations of the corporate profitability objectives.

The last phase involves the establishment of a measurement system which provides a feed-back to all levels of management published periodically, i.e., monthly, quarterly, or annually, of actual accomplishments in relation to the expected accomplishments under the corporate plan.

A fundamental characteristic of this measurement system is that it covers not only agency results which are reported on a monthly basis but also mortality, lapses, manpower, and expense results in relation to the plan throughout the entire organization. Another characteristic is that the expected expense results are not measured in relation to past performance but in relation to the financial requirements if the agency plan is to be completed within the corporate profitability objectives.

The over-all effect of this concept of corporate planning has been to achieve a high degree of co-ordination of all management effort, all directed toward the achievement of month-by-month and year-by-year goals leading to the attainment of the longer-term corporate objectives for a decade hence.

The whole procedure is repeated annually, based on new corporate

objectives one decade hence, and the short-term goals are thereby adjusted on an annual basis in relation to internal accomplishments and external changes.

**MR. MORRISON H. BEACH:** At Travelers one of the most important advantages of our formalized planning function is that it is being used as a technique of management to make sure that all our corporate efforts are directed toward common objectives. As a multiple line insurance company we operate through three major-product line divisions—individual life and accident, group, and casualty-property. Each of these divisions in turn depends on separate departments representing the many professional skills needed in our business—marketing, underwriting, claim, actuarial, and investment—to mention only the principal ones. Directing, or co-ordinating, the plans of these departments so that their operations dovetail and their objectives are sufficiently ambitious is obviously one of the most important responsibilities of top management.

There are two different approaches to the performance of this responsibility. Under one, top management alone determines corporate plans and announces quotas for sales, profits, or whatever elements are considered important in corporate objectives. Under the other approach, many levels of management participate in this decision-making process. This second approach is referred to as participative management or, sometimes facetiously, as promiscuous management.

We have used planning as a technique of participative management with the idea that it offers the greatest chance of making sure that the *total* resources of our company—particularly the skills of our people—are fully used. For some of the routine operations, work-measurement techniques can be applied to make sure that units produce reasonably close to their capacity. Within the areas of a company's operations requiring the use of skills and initiative, it is very difficult for anyone who is removed from a situation to determine how much should be accomplished. Examples of such areas are new-product development, recruiting and training new agents, improving retention of agents, improving the persistency of business, to mention only a few of the parameters of our business which are measures of our performance.

The approach that we have used is to ask each of our operating areas to "volunteer" their plans for a minimum of five years into the future. These plans have to be spelled out in sufficient detail so that they in fact do constitute a plan and not just good intentions. They therefore include not only the future volume of new life business and premium income but such other elements in our operations as the number of new agents,

production rates for new and established agents, the size of the staff required to supervise agency operations and administer the business, persistency rates, and all the other important factors that go into our operations. Parts of this process are being carried down to each of our field locations. Field management develops its own plans and commitments in the light of guidelines with which it is provided.

The plans are all summarized by our actuarial staff. Budgets are developed from the expense loadings of the premium income which is projected, and these amounts of expense dollars in our premiums are related to the budgets which the projections of our staff and facility requirements generate. These plans, by model-office and asset-share techniques, are cast into the form of a profit and loss statement for each of the next five or more years. This information is given to our top management and our board of directors for their review and approval.

Although these plans are volunteered, our department heads are provided with certain bench marks which they are expected to have in mind when developing their plans. They know that these same bench marks will be used in deciding whether or not their commitments for the future are ambitious enough.

The question for management is, how do we determine how good is good? The answer, of course, lies in establishing quantitative performance measures, such as share of the market, profit margins, percentage growth in profit, return on stockholders' equity, asset growth, or other similar criteria. We measure performance against these not only in absolute terms but also in relation to our leading competitors.

I might point out that objectives, by their very nature, often are in conflict with one another. Certainly we cannot expect to produce all the *profit* and, at the same time, all the *growth* that we desire. Certainly we cannot achieve a maximum return on stockholders' equity *this* year without perhaps sacrificing return in *future* years. Thus management must do more than simply establish a list of objectives—it must provide for the appropriate balance and trade-offs *among* the objectives.

Our bench marks are principally in terms of information produced by market-research studies. Share of the market data involves estimates of the total premium income, or volume sales, for the life insurance industry for each of the next few years. These are based on estimates of growth in population, income levels, and all the other factors which give rise to the need for life insurance.

I may say in passing that these projections describe a very attractive future for life insurance sales. (We think of our prime market for individual life insurance as being family units with incomes of close to \$10,000

or over. As recently as 1950, there were under 3 million family units with incomes over this level. By 1975, according to the economic projections that we are using, there may well be between 40 and 50 million such consumer units, the \$10,000 income level being in terms of current dollars.) Thus our planning has sharply focused on the fact that the dimension of the life insurance market is almost unlimited in spite of government programs. Our problem is to generate the agency and management resources necessary to serve this expanding market. And this, in the last analysis, implies a need to develop people. These very different activities—from the determination of the future market down to the specific programs for the development of people—are all defined and structured through our planning activities.

I would like to list briefly the advantages that we believe this planning approach offers:

1. In the first place, by having departments develop their own objectives, we believe that there is a better chance that the company will be making full use of its resources. Individuals tend to set higher goals for themselves than will be set by others for them. Departments are in a better position to plan full use of their capacities than outsiders.

2. The fact that an objective is set by a department rather than imposed from above means that a greater effort will be applied to achieve the goal.

3. By having a plan in sufficient detail to include all the elements with which management is concerned in daily operations, we are provided with a means of measuring performance. This means that responsibility can be delegated on a very broad basis, because performance can be measured against the goals which have been agreed to by all parties. We make such comparisons quarterly. This process permits management by objectives rather than by detailed directives.

**CHAIRMAN THALER:** Mr. Lamphere, how do you get the planning process started in a company?

**MR. LAMPHERE:** I can give you some of the fundamentals that I see, and maybe some of the other panelists can add to them.

One of the very basic fundamentals is that if the chief executive officer is not interested in planning, personally and deeply, I would recommend that he leave it alone for the time being.

Second, I would recommend that any new effort at establishing formal corporate planning should start small and near the top, with possibly reporting to the chief executive officer or some other top officer.

Third, I think that the planning should be principally carried out within the various departments and you should get their interest and participation. If you try to do their planning for them at the top, the whole cycle that you are trying to set up will get out of position.

Fourth, you can easily do some research on long-range planning generally, on the successes and mistakes of other companies, and on many other fundamentals, because there is a lot of literature available.

MR. LEWIS: This type of long-range planning is only feasible if there is a broad awareness of the need for such a process held by the senior management of the company.

I agree with Mr. Lamphere that this whole process does require the whole-hearted co-operation of the entire organization if it is to be effective throughout. But it does require some co-ordination at a fairly high level by a well-trusted, well-versed executive who can co-ordinate the very diverse aspects.

MR. JOHN C. ANGLE: To what extent does corporate planning tie into corporate budgeting? How do you tie a single year's budget into a long-range plan?

MR. BEACH: Our whole budgeting process works hand in hand with our planning process. In fact, the budgeting process is a very important part of it.

We first set out premium goals and analyze the expense dollars that will be available out of this income, which is one side of the budgeting process. The other side is to analyze how many people and what facilities we will need to sell and administer this volume of business. The dollars available in our premium income for expenses are compared with the cost of the staff and other requirements of producing this business.

We do this over a period of five years; but every year, of course, we take a new look. The budget for one year is developed within the total concept of the five-year plan for production and expenditures.

CHAIRMAN THALER: Mr. Lewis, does your system tie in closely with this need for budgeting and controlling not only expenses but other factors?

MR. LEWIS: Yes, the whole process of budgeting is an integral part of the total planning process. Once the agency objectives are made firm, the provision for expenses can be determined. This is subdivided and assigned to various operating departments in the field and the head office and forms the basis for part of a system that measures periodically the actual expenditures in relation to the expected expenditures and in relation to the total planning effort.

MR. JOHN C. MAYNARD: The life insurance business is undergoing a number of changes, including changes in products and marketing procedures. In this light, how are the planning procedures kept flexible?

MR. BEACH: The question points out one of the very things vital in the operation of a company and which the planning function should be well prepared to do.

We have a research department that makes extensive studies on projections of the economy and we use consulting sociologists who give us a little insight into the kind of people our customers may be in the future. We also have experts on relations with the government who evaluate the potential impact of possible governmental programs. So we develop analyses of the future markets for insurance within the environmental analyses of the future of our economy and significant changes in customs and in attitudes toward savings, for example. These factors are then interpreted in terms of the opportunity to sell insurance and can then be converted back into the plans which our operating departments develop.

MR. RICHARD H. TALLMAN: Mr. Lewis, in what terms are the objectives for the actuarial department set, and in what terms is the progress measured for performance?

MR. LEWIS: It is not possible to measure performance in every research-oriented or administrative type of organization. The actuarial department is measured in relation to its contribution to the over-all financial objectives. This might be put in terms of how much money they spend in relation to the money that is provided for this particular function.

The whole subject of product design very naturally comes up in the whole process of corporate planning. The environment in which the insurance industry will find itself in the future and the marketing plans of the organization offer strong guide posts for the actuarial organization in terms of plans, price levels, and the market to be hit. But, in my company, no direct means have been found to measure the achievements of the research-oriented organizations within the company.

MR. JACOB S. LANDIS: How would a new insurance company initiate the planning process at the birth of the company? What guidance would a beginning company have in such an activity?

CHAIRMAN THALER: It would certainly seem that at the inception of a company, long-range planning is more essential than at almost any

other time. The principles which have been presented could be applied at the initial point in time equally well.

MR. LAMPHERE: I would think that you would have to lay some fairly careful plans as to why you thought you were going to succeed. You would have to go through practically the whole process in at least an elementary stage in order to make the decision to launch the new company.

I think that the planning should be done by a new company more than any other. The process sometimes begins to fall down after the company has been in existence for a time and things do not go exactly as anticipated. Then the time has come to look at some of the external environmental factors and take an assessment of the company.

MR. J. STANLEY HILL: How many of the panel retained consultants or other outside professionals to help them establish their planning?

MR. BEACH: We have a management consultant from one of the leading business schools who is in general an expert on planning but works with us primarily on management-development programs. In our planning it appeared that the development of people was our most important problem.

MR. LAMPHERE: We did not hire a consultant as such. We did talk to a number of people who are recognized in the field. We hired a professional economist to give advice particularly in connection with the investment side of our business.

MR. LEWIS: First, when corporate objectives are measured in terms of share of the market, some technique has to be determined to estimate the market. So we retained consulting economists to get a technique to determine this through unemployment rates, productivity increases, population changes, and estimated price changes over the future.

Second, the corporate planning process has had broad organizational implications within the company, and we did hire a management consultant in that aspect of it.