

## TRANSACTIONS

MAY AND JUNE, 1971

---

### PANEL DISCUSSION

#### THE ACTUARY'S RESPONSIBILITY TO HIS VARIOUS PUBLICS

The life company actuary's responsibility to the insurance buying public, and its relationship to his concurrent responsibility to the agency force, stockholders, and present policyholders.

The employee benefit actuary's responsibility to plan beneficiaries and its relationship to his concurrent responsibility to employers and unions.

The public's interest in actuarial techniques and its need for meaningful actuarial explanation.

#### *Seattle Regional Meeting*

**CHAIRMAN STUART A. ROBERTSON:** A simplistic philosophy of responsibility underlies Stephen Decatur's words, "Our country, right or wrong." I label it simplistic because it approaches responsibility simply by substituting blind loyalty. Do actuaries pursue that philosophy? Should the life company actuary or consultant say, "Our company (or client), right or wrong?" Should any actuary testifying before a court or a government hearing be an adversary, or ought he to be an objective professional expert?

The answers to these questions are perfectly obvious—at least I hope that they are. Less clear, however, is the practical means by which an actuary can identify his responsibility to various entities and, having identified it, resolve the conflicts when his responsibility extends to more than one party, as it most often does. The conflicts that are apparent in my examples are merely illustrative of the type of problems we are here to discuss today.

**MR. GARNETT E. CANNON:** In one sense the actuary can be looked upon as the architect and engineer of the life insurance company. He measures the financial stresses and strains likely to be met, designs plans to meet the needs, and determines the provision to be made for such plans.

In the carrying out of these responsibilities, frequent occasions will arise which lead to conflict among the actuary's publics. For example, in the analysis of long-term financial protection needs, his studies will show that in most cases there is a need to provide funds that will be available at retirement age, usually many years ahead.

To meet the financial stresses and strains of the future, he may find it desirable to increase benefits as salaries increase or as purchasing power dwindles. Further, there is the question of portability of retirement benefits. Should the person who works for five different employers have less benefit at retirement than the person who has spent his entire career with one employer, even if earnings over the period have been exactly the same?

Is it the actuary's responsibility to raise such questions, even though he may not have a ready solution or may know that such arrangements might cost more, thus making the selling job somewhat more difficult? If the insurance company, through its actuary, does not provide such long-range financial planning information, where does the public go for such counsel?

Second, the actuary is confronted with designing contracts to meet the prospective long-term needs of the insurance-buying public. At the same time, he has a responsibility to his company to include measures of control which will not expose it to undue risk. For example, a promise to pay benefits in terms of future purchasing power might benefit the policyholder but be unsatisfactory for his company.

In addition, in contract design, the actuary must be practical. He cannot introduce so many complexities that the contract becomes confusing. The contract must be sold, usually by a salesman. In fairness to the salesman the contract should be attractive and salable. The subject of product design has taken on increasing importance today as criticism is leveled not only at portability of pensions but at medical care insurance and even at the level premium plan of life insurance itself.

The third responsibility, namely, rate structure, involves equally complex problems. There is no question about the fact that the actuary must assume responsibility for the adequacy of the premium. This recognizes his obligation to the stockholder and to present policyholders. But he cannot hide behind adequacy to the point where rates may be excessive, to the detriment of the purchaser or the salesman in meeting competition. He must find ways, with all the skill and intuitiveness he possesses, to make his rates competitive. Sometimes this involves innovating special legitimate and worthwhile features which make his

company's contracts unique. This is not meant to justify the use of gimmicks or trick benefits.

In addition to his responsibility for adequacy and competitiveness, the actuary is responsible for seeing that the rate structure is equitable among policyholders. In some respects this is the most perplexing problem of all. It should be remembered, however, that insurance can operate only if large numbers are involved, so that the law of averages has a chance to work. Therefore, equity in a broad sense among classes of policyholders rather than among individuals is all that should be sought.

An interesting case in point involving equity is the question of minimum deposit insurance. Does the actuary have a responsibility to curb this kind of insurance in order to protect his company, other policyholders, and stockholders? Is there too much possibility of exploitation of the buyer through sale to him of a plan which may ultimately fail to provide the protection he needs? Is the salesman really selling term insurance and collecting the higher commission applicable to permanent insurance? Here is a case in which the company actuary can analyze the situation, demonstrate to management by arithmetical examples how the various publics are being treated, and propose rules for guidance to ensure that the various parties involved are being considered fairly.

Today's problems involving rate structure seem to be focusing on adjusted cost and the actuary's responsibility to promote it or to explain its weakness with respect to an indefinite future. Possibly more of his attention might well be given to minimizing the problems of restrictive regulations for the benefit of the insurance-buying public.

The fact is that the competitive position of insurance companies today and the ability to excel in the products they provide the public are being impaired by high premium taxes, federal income taxes, minimum rates of loan interest, and inflexible standards of reserves and nonforfeiture values. Perhaps actuaries could serve their various publics to good advantage by endeavoring to minimize these problems.

**MR. JOHN P. CARBERRY:** In most of the situations that the employee benefit plan actuary encounters, he is cast in the role of an adviser. His major responsibility is to educate his client and, if it is requested, to make recommendations. He almost never makes the decision as to what course of action will be taken. That responsibility, quite properly, is assumed by his client.

An assignment frequently encountered is one in which the actuary is called on to advise his client in the areas of benefit design and plan financ-

ing. It might involve the design of a new insurance or retirement program, or it might involve the updating of an existing program. Typically, he is asked to design and recommend a benefit structure that reflects the characteristics of the employee group and the client's objectives in establishing the program. What *are* some of his responsibilities in approaching this part of the assignment?

For example, in the absence of specific instructions to do so, should he offer more than one benefit structure in order to give the client a choice? Should he present a final average pay pension plan or a career average plan or both? How should he handle the question of a liberal vesting schedule versus a conservative schedule? an integrated plan versus a nonintegrated plan? an excess plan versus an offset plan?

Should he make specific recommendations on the benefit structure that he thinks is most appropriate? Or should he simply lay out the choices and leave it to the client to make the selection? Some people take the view that the client should be given as few alternatives as possible, on the grounds that the designs are time-consuming and expensive to prepare and explain, and tend to confuse the client rather than enlighten him. These people argue that the actuary is the only one who really understands all the alternatives, hence he is in the best position to select the most appropriate schedule.

As a general rule, I do not subscribe to that point of view. First of all, I believe that the client, not the actuary, should make the decisions on both benefits and financing. He knows his group and his objectives much better than the actuary does. Alternatives, properly explained and illustrated, can be a great help to him in making the right decision. They force him to consider different viewpoints and thereby give him a perspective he would not obtain otherwise.

A similar situation exists with respect to financing the program. In setting up a pension plan, the actuary is normally expected to recommend a funding method and a set of actuarial assumptions. Sometimes he is also asked to participate in the evaluation and selection of a funding vehicle.

What funding method should he recommend? If he believes that the entry age normal method is the most appropriate, should he even mention the unit credit method if he thinks his client may prefer it because it produces more attractive benefit-to-cost ratios in the early plan years? What actuarial assumptions should he recommend? Should he select a set based on his experience with other groups, or should he make a

specific attempt to identify the significant characteristics of the particular group?

Under a joint labor-management pension fund where both contributions and benefits are fixed, does the actuary have a responsibility to influence the degree of equity that is established for different generations of pensioners? Should he recommend a set of liberal assumptions and thereby give relatively greater benefits to employees who retire in the near future? Or should he recommend conservative assumptions and thereby favor the younger employees, on the theory that they are the employees who will be responsible for bringing in the contributions and therefore they should get the bigger benefits? Here again, as a general rule, I am in favor of giving the client as much meaningful information as possible. Whenever it is feasible to do so, alternatives should be presented and explained.

The problem comes from the fact that it is not always feasible to do this. For example, how does the actuary control the amount of time and expense that he devotes to educating the client? This can be particularly troublesome if the employee group is small or, in the case of a fee-for-service actuary, if the client cannot or will not authorize payment of a fee.

Another frequently encountered problem is the potential for a conflict of interest. In a typical assignment involving plan design and financing, the actuary must recognize that there are at least three interests in addition to his own—his employer's, his client's, and those of the ultimate beneficiaries of his services, frequently the employees covered under the program. In any given situation one or more of these interests may conflict with the others. Therefore, if the actuary is to comport himself in accordance with the Guides to Professional Conduct, he must recognize the situations that involve a conflict of interest and he must have a means of resolving conflicts so that he can function with unimpaired objectivity.

For example, if the insurance company home office actuary participates in the evaluation and selection of a funding vehicle, does he have a conflict of interest? Is it appropriate for the client to view him as an insurance company employee whose primary responsibility is to his employer? Is there a conflict of interest if he makes recommendations as to the amount of annual employer contribution under a self-rated contract?

Can the actuary affiliated with a brokerage firm avoid a conflict of interest if he participates in the evaluation and selection of an insured

versus a self-insured funding arrangement? An argument frequently advanced to support the actuary's objectivity is that fees are offset by commissions, so that there is no incentive to influence the selection of one vehicle over another. However, is this sufficient? Some insurance companies give production credits to brokers which lead to personal recognition for performance in a variety of forms. Can they influence the actuary's objectivity? Should the independent actuary in Los Angeles accept an assignment from a union local if another member of his firm in New York serves as actuary or consultant to an employer who deals directly or indirectly with the same union?

The answers to these questions can be very elusive. It is usually not too difficult to identify the situations in which a conflict may arise, but the questions whether or not the actuary has a responsibility to more than one interest and, if so, whether or not he can objectively represent more than one interest are much more troublesome.

An approach that has sometimes worked for me is based on assigning a priority to each of the various interests. The highest priority is assigned to the interests of the actuary's employer. A satisfactory employer-employee relationship requires that the employee support, at least publicly, his employer's efforts to successfully market his products and services. Therefore, if an assignment involves a potential conflict between the interests of the actuary's employer and the interests of others, the actuary's primary responsibility is to his employer. If the questions of objectivity and full disclosure cannot be resolved in accordance with the Guides to Professional Conduct, the actuary can purport to represent only his employer's interests. He represents the interests of others only indirectly, through his influence on his employer's choice of products, services, and marketing methods.

The next order of priority is assigned to the interests of the client, that is, the party who is purchasing the actuary's services. This is frequently corporate management, but it may also be a union or other employee group, a government entity, or the trustees of a trust fund. This party, in exchange for retaining and paying for the services of the actuary, is entitled to a first claim on his loyalty after any questions of conflict with the employer's interests have been resolved satisfactorily. Here again he can represent the interests of others only indirectly through his role of adviser to his client.

The third order of priority is assigned to the ultimate beneficiaries of the actuary's services—most frequently, but not necessarily, the employees and dependents covered under the program. The actuary cannot

purport to represent the interests of this group whenever they conflict with those of his client or his employer.

We must recognize these priorities when we approach the question of professional responsibility. Perhaps we should be more diligent and take a greater interest in influencing our employers in the areas of product design, marketing techniques, and public need.

MR. RICHARD S. L. RODDIS:\* Stuart has suggested that I should be provocative and critical. I certainly will try to rise to that challenge. I have the advantage, of course, which one always enjoys in this kind of situation if he is not overly burdened with knowledge of the subject or technical competence in the field, so my capability to be as critical as possible is unconstrained.

You know that we live in the era of the stirring of the sense of social responsibility. Many groups under fire from the new consumerists and environmentalists for having done too well over the years what they thought was their job are asking what other or broader responsibilities they have than that of competently performing their craft essentially for the benefit of those who pay them to do so. The actuaries are not alone in this. In fact, if anything, I suspect that the actuaries are coming around to this kind of panel a little bit on the tail end of the trend. Panels and preachers on social responsibility have been the fashion at many business and professional conventions for several years now. Now the fad has caught up with the actuaries, which may, of course, signal its end. The doctors are under fire for having adhered to and defended too long a system which produced high-quality medical care at high cost for high-income patients, resulting in high incomes for doctors, and are now being led to rethink the whole problem of the distributive mechanism for medical care. We in higher education, after striving for years to educate hordes of students clamoring at the gates of the universities, are now being criticized for having overpopulated the world with engineers and assorted Ph.D.'s. The lawyers are being attacked for having been too competent as advocates for the interests which retained them and are now seeking redemptive salvation through greater emphasis on the moral purity of their clients if not of themselves. The architects are under fire for having built too many big and excellent buildings without enough attention to the human psychological environment which they affect. The power engineers have been criticized for having in some way

\* Mr. Roddis, not a member of the Society, is Dean of the School of Law, University of Washington.

or other created a society overly dependent upon electricity, and they are now being encouraged to advise that you use something else to cool yourself during the summer.

This whole question of the extent to which actuaries should have a broader sense of social responsibility actually contains two questions. I think that the first tough question is this: Do actuaries have a responsibility to groups other than those who immediately provide their bread and butter? I must say, after listening to John and Ding, that I think there is some difference of opinion on this point. Second, assuming that actuaries have this broader responsibility, I suppose the question can be asked: How well have actuaries carried it out? Now the answer to the first question in one view would be that the actuary is essentially a technical adviser and that the measure of his responsibility lies in his competency and honesty. If this is the case, I have no great reason to be harshly critical. Most actuaries that I have dealt with were reasonably competent as far as I could determine. In my role as a regulator, my dealings with some actuaries were very unsatisfactory, but human frailty would be present in any professional group, and I think it has been a rather small factor. Actually, I think that the competence and honesty of an actuary are factors that most of us who are not actuaries simply cannot evaluate very accurately. The whole question is surrounded with a mystique that is almost impenetrable. The question whether an actuary is really making an honest presentation to you depends on whether you are smart enough to ask the right questions. It is really rather hard for the layman to assess performance, particularly in the life insurance business. The life insurance business in its financial aspects has such a built-in cushion that it is practically impossible for a life insurance company to go broke without setting that as a deliberate objective. I am rather high on the actuaries as to their performance in these basic areas of competence and honesty.

Now, is there a broader responsibility? That is a difficult question, and I suppose that everybody will have to answer it for himself. The answer is partly a function of social demand—one has a broader responsibility if society generally expects him to have it. It is also partly a function of what one pretends to be. Status governs responsibility, and in a broad sense the extent to which the rest of society becomes dependent upon one enhances the expectation of responsibility. On these grounds I think that society probably does expect, or has a right to expect, a rather broad assumption of social responsibility on the part of actuaries. We are heavily dependent upon you, and, in addition, you have held yourselves out as an independent professional class. You have not,

in fact, advertised yourselves as mere technicians. You purport to be objective, independent professionals. I think that the rest of society will in effect expect people who hold themselves out in that fashion to become more involved in making value judgments in the area of their professional expertise and less concerned merely with technical advice. If this is the measure—if there is a broader responsibility to the public generally, to groups other than those who pay for the bread and butter—then I am inclined to entertain a low opinion of the collective performance of actuaries.

This opinion is based on the failure of actuaries to come to grips with some of the basic questions relating to the validity of the systems within which they operate. I have not observed the actuaries, either individually (with a few exceptions) or certainly collectively, to be in the forefront of criticism or deep thought about some of these issues—for example, the validity of the net cost method of selling life insurance relied upon historically in this country and the sale of pure insurance versus high-cost investment contracts. I sometimes wonder how the technique of insulating the actuary in a company from the sales force can be thorough enough that the actuary can honestly say that he does not know what happens in the field. I have been somewhat involved in attempts to expose and clean up the credit insurance business, and I found many actuaries, who certainly earned handsome livings, defending the system, which was questionable in a great many different respects. In the pension plan area there is the whole problem of the appropriateness of the patchwork of pension plan coverages in this country, frequently designed more to benefit higher-paid executives and to tie employees down to particular employers than to create a true, broadly based system of old age insurance. Then there is the array of troublesome questions about the role and conduct of mutual life insurance companies which no one even asks, except, I suppose, in his bedroom closet in private moments. When some of these matters have been exposed to public discussion and criticism, the moving individuals have usually not been actuaries. It seems to me that I have not heard the actuaries vocally coming forward to the public on these and other appropriate questions, and hence it seems to me that, if the actuaries as a group do have a broad social responsibility to the public generally, perhaps they should be speaking out and thinking out more aggressively.

**MR. CARBERRY:** It seems to me that there is an identifiable trend on the part of the life companies to get away from the pure insurance products and lean toward the area of broad financial planning. Many

of the products associated with this concept have originated with employee benefit programs. For example, early development in the area of equity products took place through the separate account that was available to qualified retirement plans, and this evolved into the variable annuity. Now we have variable life insurance. My question would be whether there is not a greater need for something similar to a minimum deposit contract. Might we not find companies actually designing and marketing minimum deposit contracts to accommodate this concept? The problem in a broad financial program is that you need the funds to get into some kind of an inflation-proof vehicle, but, at the same time, you need the flexibility to keep the cost of insurance down at the older ages. Perhaps the minimum deposit contract, under which some of the capital appreciation can be used to help pay the high cost of insurance at the older ages, has a proper role in such a program.

MR. BRUCE E. NICKERSON: Mr. Carberry made the point, if I understood him correctly, that he felt that the actuary's first responsibility was to his employer. I would like to suggest that he failed to make one distinction which may be very critical in meeting this responsibility. One must distinguish between what the employer feels to be his objective and what the individual himself perceives to be in the interest of the employer. To take a rather specific example, Mr. Roddis referred to the debates that have been taking place concerning net cost methods of illustrating life insurance. I am certain that there are employers who have felt that it was in their interest to maintain and continue the type of net cost illustration that we have traditionally used in the industry. I think that it is entirely possible, however, for the individual actuary to oppose his employer's position on this matter after an honest consideration of what he feels to be his employer's true long-range interest rather than the perceived interest.

MR. RODDIS: All this business about who is the employer comes down to a rather simple answer in the life insurance business—it is the agency force. That is who you work for, and that is where the pressures are to do all the things that, in my view, you should not support doing. The agents want whatever they think they can sell more of at higher commission levels. That is the perceived answer as far as the marketing force is concerned. It happens to coincide with the perceived notions of management groups, not only in the insurance business but throughout the American economy, which glorifies growth in size as an ultimate objective of all enterprises. The insurance business is dominated by a commission-

oriented marketing system which evolved intuitively, I suppose, as a mechanism for promoting great growth.

What should the life company actuary actually do about this situation? At least internally, in his company, the actuary can raise his voice fairly loudly in support of what he thinks are rational objectives for the company.

MR. CANNON: You do not necessarily give in to the field force on every case. I think that the actuary has a responsibility to bring these things to management's attention. If he does that, and management disregards his point of view, I think that he still has performed his function. Of course he can quit, but that may be the easy way out. If management disregards him, then the responsibility is management's rather than the actuary's.

MR. ROBERT L. PAWELKO: The ethical actuary working in the unethical company can always quit. I think, however, that he owes it to the profession, to the industry, and to the general public, to then come to us in the department of insurance and let us know about some of these things. There are very few state insurance departments in the country that have the advantage of their own actuarial expertise, and those that have it find that their actuaries are doing things other than actuarial work. I spend more time talking to attorneys who come to our department than I do talking to actuaries. The actuary knows what is happening. The departments cannot find out all these things themselves.

MR. GREGORY S. STRONG: I would like to direct a question to Mr. Roddis. What can we do as actuaries to better perform our responsibilities?

MR. RODDIS: It seems to me that the process of improvement can probably be carried out in two ways. First, at the collective level, through bodies such as the Society, you can conduct studies and take public positions. This is something that other professional groups do. At the individual level, I do not know. As I said, I do not entertain a high opinion of the extent to which actuaries have been in the forefront of criticism of the system. I am not really terribly optimistic that you are going to be in the forefront of it, for a simple reason. You have a relatively narrow financial base. Most actuaries work directly or indirectly for insurance companies or other organizations that are essentially providing insurance functions, or they work essentially for some other economic interest that is

involved. You do not really have a broad enough outside employment base, except for a handful of insurance departments. Depending, however, on whatever measure of academic freedom you enjoy in your employment relationships, I suppose that you are always free as individual citizens to take any position you want. There are people who do that in other occupations. I know young lawyers who have, on their own, taken positions that are obviously contrary to the interests of some of their law firms' clients. Private business does not tend to have such a highly developed concept of academic freedom as, say, a government employer or a university would have. Basically, I think that improvement would have to come through collective bodies.

**MR. ROBERT J. MYERS:** The panelists and the previous speakers have failed to touch on one important aspect of the actuary's responsibility to his public—namely, the situation of the government actuary who is associated with social insurance programs or government-employee benefit plans.

In some ways the problems occurring in this situation are rather complex, but, to state it rather simply, such an actuary owes primary allegiance to the country as a whole. Accordingly, in the performance of his primary function of preparing cost estimates for the existing plan and for proposed amendments thereto, his estimates should be neither biased downward when dealing with proposals of the administration nor biased upward when dealing with proposals of others. Rather, the estimates should be on a consistent, reasonable basis no matter what plan they are concerned with.

Naturally, the actuary should—as long as he plays his technical role as a civil servant—aid his direct employer, the present administration, as much as he possibly can on all technical features within his area of competence and should not openly either support or oppose its policy recommendations.

**MR. FRANKLIN C. SMITH:** An actuary who serves funds for public employees or who acts as an adviser to legislative bodies has the responsibility of raising questions about the equitable distribution of the costs of benefits among the various generations of taxpayers.

Mr. Carberry mentioned that the cost of plans for public safety employees is higher than for others because the ability to meet the physical demands of these occupations is lost at a relatively early age, which requires a younger normal retirement age. I agree with his analysis but wish to point out that the proposed financing of many plans for such

employees would defer the bulk of the contributions to the twenty-first century. Here is an example of a situation in which the actuary has the responsibility of trying to bring about a more equitable distribution of the costs.

*Des Moines Regional Meeting*

CHAIRMAN JOHN C. ANGLE: I should like to touch on three issues implicit in the topic assigned us this morning.

1. Questions about the actuary's responsibilities in various circumstances are essentially ethical questions. The generic question is what one ought to do. The answer can be either absolute or relative and may, in the world of men, be an empirical one.
2. We shall be discussing our new awareness of consumption communities or of consumerism. Consumerism has many manifestations: it may be a demand for "consumer" representation in the seats of power; it may be one of buyer education or of fuller disclosure of information to the consumer; it may be the stance of advocacy under which a consumer movement or a corporation or a public interest law firm represents its members, customers, or clients in working for social or business change.
3. We shall consider whether consumerism introduces new responsibilities for actuaries or for those who employ them, and also to what extent the actuary is a self-appointed spokesman for the consumers of pensions and insurance.

I am indebted to Professor John D. Long of Indiana University for any insight I have into ethics. In a recent book<sup>1</sup> Professor Long argues that the ethical foundations of insurance began with the concepts of right and wrong and, further, that insurance depends upon popular acceptance of such principles of conduct as honesty, the wish to preserve what we have, the desire to achieve, and the conviction that each individual is personally responsible and accountable for himself and his own.

Professor Long reminds us that the generic ethical question has always been, "What ought we to do?" Our problem in answering this question, however, which has given rise to centuries of debate, is whether "ought" demands one answer or many. On the one hand, there is the absolute view that there is only one answer, which is immutable and universal, regardless of the situation. On the other hand, many have found "ought" to be a relative matter depending on such variables as the person, the timing, and the situation.

<sup>1</sup> John D. Long, *Ethics, Morality and Insurance—a Long Range Outlook* (Bloomington, Ind.: Bureau of Business Research, Indiana University, 1971).

We on the panel have few absolutes to offer. What we shall do is to describe our own experiences and decisions in specific actual situations.

All of us, in addition to being members of professional, religious and political communities, are members of countless consumption communities. I use here the phrase of historian Daniel J. Boorstin and quote his definition: "A consumption community consists of people who have a feeling of shared well-being, shared risks, common interests and common concern that comes from consuming the same kinds of objects. It can be the community of scotch drinkers who rally to the J & B brand, of three-button-suit wearers, . . . , of super-king-size cigarette smokers, or of Doublemint gum chewers."<sup>2</sup> Consumption communities, to be sure, are based on volatile, switchable loyalties. But they are also, Boorstin notes, democratic, nonideological, and based on common interests.

The consumerist movement attempts to articulate the needs or wants of each or all of the consumption communities. One need is better information—unit pricing in the supermarket and a label to show how much phosphate is in the detergent. Another is one of advocacy, perhaps best symbolized by Ralph Nader and Professor Herbert Denenberg. Public interest law firms, such as that headed by Ralph Nader, are tax-exempt organizations that receive substantial support from foundations and whose efforts are generally applauded by the public.

The consumer advocate can be a corporation. I would cite and laud the efforts of the Allstate and State Farm Insurance Companies to reduce automobile accidents. Both concerns have mounted public campaigns to urge automobile manufacturers to build safer, more damage-resistant cars. They have also campaigned for the adoption of a 0.10 per cent legal definition of intoxication.

From the consumerist movement comes a new awareness of the customer, the client, the public. One author observes: "All professions are currently redefining their obligations, and . . . in many instances the new, emerging definitions are somehow bound up with education, taking the word in the broadest sense. Consumerism and new doctrines of corporate responsibility and accountability are percolating upward into business circles."<sup>3</sup>

As actuaries we face a re-examination of the needs of the people we are supposed to serve. Yet there is the troublesome matter of reconciling

<sup>2</sup> Daniel J. Boorstin, *The Decline of Radicalism* (New York: Random House, 1970).

<sup>3</sup> Charles Silberman, as quoted by Joseph Featherstone in *Cultural Affairs*, January, 1971.

these new demands with older traditions of professional autonomy. Does professional autonomy demand that we be neutral, above the fray? Does it require that we take only the part of the client? Does it prevent us from partaking of many roles we would like to enjoy? Are we self-appointed guardians of the consumer?

MR. REUBEN I. JACOBSON: I would like to suggest that many of a life company actuary's responsibilities should be shared by other officers of the company. I have always disliked the expression "a defrocked actuary" because it implies that an actuary in good standing wears something comparable to judicial or clerical robes. It assumes that he must bear certain responsibilities that can be discussed only with other actuaries and that in his own area he is an authority who cannot be expected to explain his decisions to the laity. It is true that the officers of an insurance company do not share equally in all responsibilities, and there are times when an actuary has to stand alone, but this should not happen frequently. I think one of the actuary's chief skills should lie in persuading fellow officers to adopt sound practices for the company.

In certain areas, however, the actuary has to assume prime responsibility; chief among these is the responsibility of seeing that the company conducts its business in such a way that it will be able to make good on all the guarantees it has made to its policyholders. This applies in equal force to actuaries of stock and mutual companies. It is obviously more difficult in the case of a stock company, which must operate with narrower margins. In a mutual company the actuary must also bear prime responsibility for seeing that all classes and generations of policyholders are treated equitably.

Another activity in which the actuary must play a leading role involves making sure that the policyholder knows what he is getting and what he is paying for it. An actuary must do his best to see that policyholders understand the policies they are buying. The most effective representations regarding policies offered are those made by the agent to the policyholder. The actuary must therefore work with the agency department. He should take the lead in the battle against unreasonably complex policies that can be easily misrepresented. Another responsibility that can be carried out only with the help of the agency department is that of making certain that the buyer of a participating policy understands what a dividend illustration is and what it is not. Illustrations are projections of the existing dividend scale; this is abbreviated to dividend projections, and dividend projections are taken to be es-

essentially the same as dividend estimates. I believe that dividend illustrations will be in for increasing criticism.

Cost comparisons ought to be made available to the public in more understandable form, but courtesy among companies has restricted this practice somewhat, and the weaker companies can always escape by avoiding a head-on comparison. I believe that the public is entitled to better information.

Apart from considerations of policyholder dividends, the responsibilities of an actuary working for a stock company are essentially the same as those of an actuary working for a mutual company. The primary responsibility is to the owners; in a stock company the stockholders are the owners, and in a mutual company the policyholders are the owners. I do not see that striving to advance the interests of the stockholders is in any way unethical. The more the company prospers, the surer the policyholders are of having their contracts fulfilled, and, in order to prosper in the long run, any company—stock or mutual—must provide a useful service to the public. Working for short-term gains at the expense of the public will never serve the long-run interests of the stockholders. The actuary working for a mutual company is primarily responsible to the policyholders, and concern for their interests and for equitable treatment for different classes is paramount. Naturally, the employees and agents of any company must receive fair treatment, but marketplace considerations will generally take care of their interests. It is most often the policyholder who needs protection. It is not desirable for the actuary to assume that he is their only defender within the company—this just is not so—but he is in a better position than most to observe any inequity.

MR. ROBERT I. MEHR:\* At this very moment twenty-two of my students are writing their final examination for a course called "Seminar in Life and Health Insurance." Perhaps they are now writing on question 3, which asks them to discuss the ways in which the life and health insurance products now offered to the public may be improved. Or they may be writing on question 4, which asks them to consider the *Life Insurance Fact Book's* definition of level premium insurance and to explain its inherent weakness when viewed in terms of reality. Perhaps a few have reached question 5, which asks them to develop a set of useful consumer-oriented criteria for evaluating life insurance cost comparison methods and then to test the interest-adjusted method against these criteria.

\* Mr. Mehr, not a member of the Society, is professor of finance at the University of Illinois (Urbana).

One or two may even be writing on question 6, which asks them to establish a set of public interest criteria for evaluating state regulation of life and health insurance and then to point out what current regulatory measures, both statutory and administrative, they consider to be in conflict with these criteria. Also, they are asked to consider what regulatory measures are lacking that are needed to satisfy these criteria.

Many of these students are majors in actuarial science (I use the word "science" loosely) and will be working with some of you. They have developed a refreshing attitude toward public responsibility which hopefully is strong enough to endure, that is, strong enough to offset any discouragement they are likely to face in their jobs. They are aware that effective responsibility is a function of capacity, power, and wisdom. While they have cultivated their capacity and will continue to do so, they have no power and will not acquire any for quite some time. Of course, we all know that wisdom is a product of time. Nevertheless, these students will continue to be concerned, at least initially, even though they will not be effective in the area of the actuary's responsibility to the public. They may be uneasy about what they observe because they believe the concept, "sin with the multitude, and your responsibility and guilt are as great and as truly personal, as if you alone had done the wrong."

By the time they have acquired sufficient power to be effective, however, they will most probably have a different perspective and a concept of responsibility quite different from the one that they have now. Shakespeare exaggerates the well-taken point when he writes, "Nothing can seem foul to those that win." Nevertheless, success does tend to affect one's perspective. A perspective is a mental image, and it relates to the faculty of seeing all the relevant data in a meaningful relationship. Perspective frequently is a function of emotional attitudes and forces one to become a slave to his biases and prejudices. It is also conditioned by reverence for traditional methods of doing things or by loyalty to established institutions and customary ways of thinking. A different perspective can be accomplished only by a re-evaluation of old thought habits. In writing about the insurance business, one professor has commented on what he calls the pathological sensibility of its practitioners, and another has observed what he calls the almost religious worship of its machinery. One professor has written, "An institution which does not seek out, encourage, and reward criticism condemns itself to obsolescence, inefficiency, and deterioration."

It should be clear by now what I conceive to be the overriding responsibility of the actuary to his various publics. Basically, it is that of continuing to question his beliefs and of conditioning himself for the

examination of what might turn out to be new but unfamiliar approaches to problems. He has a responsibility to continue to educate himself in the true sense of education.

Using the broad sense of the term, Daniel Webster put it well when he said, "The most important thought I ever had was that of my individual responsibility to God."

To fulfill his public responsibility, the actuary must take a few hours a week to do some thinking and some rethinking on problems and issues, toward the end of improving the product offered, the services rendered, and the efficiency with which the objectives can be met, in order to control the price that the policyholder must pay for his insurance.

**MR. GERALD I. WILSON:** I think it is obvious that there is not a substantial public that recognizes the activities, the actions, or even the existence of the actuary. On the other hand, the actions and the activities of those of us in the actuarial profession certainly have some sort of impact on the lives of a very large number of people. I would like to touch briefly on two aspects of the interaction of the actuary and the public. I shall call them "publicity" and "communication."

I would like first to read a headline from the front page of the *Chicago Tribune*. The headline reads, "Many Hurt by Pension Hoaxes." The copy begins: "The American dream of retirement with a comfortable income and freedom from financial worries may only be a myth for millions of workers covered by private pension plans. . . . The Tribune has learned of many such cases in an investigation of the mounting problem." This was only the first in a series of articles. Subsequent articles in this series also received first-page coverage and in some cases full picture coverage on the back page, carrying such titles as "The Legal Pension Hoax," or "Teamster Loses Sight, Benefits."

In a somewhat less dramatic fashion, because it appeared on the business and finance pages rather than on the first page, the *Chicago Daily News* was also in there pitching with an article entitled "The Big Pension Myth," which stated: "Today, 28 million blue and white collar workers believe they are working toward a 'comfortable retirement' under private pension plans. But unrealistic terms, layoffs, plant failures and 'technicalities' will intrude to disappoint as many as 9 of 10 in some industries, one Senate investigator said." This is what the copy says, and yet those of us who work in this field, who know the people involved and understand the technical aspects, know that the great majority of employees covered under private pension plans are in plans that were set up in good faith, have good management, and will pay benefits as promised.

The question then is, "What responsibility do we have as individuals to rebut such public pronouncements which we know or feel to be misrepresentations of the actual situation?" The story about good pension plan management does not make good copy. How does one individual get a forum with a nice story? The political figures who represent us do not get good mileage out of public pronouncements about things that are going well. Certainly many of us feel that there is some responsibility to reply. In the case of the *Chicago Tribune* articles, four firms in the Chicago area did get together in an interview with *Tribune* reporters to give facts about the private pension movement and to attack the misrepresentations in the earlier articles.

The Conference of Actuaries in Public Practice, anticipating the difficulties that would develop, offered to help Senators Javits and Williams analyze responses to their recent questionnaire on private pension funds. Their offer was turned down. Some of the statistics that are beginning to emerge indicate that their concern was genuine.

How does one carry out his responsibilities when there are situations which are not either all black or all white? This type of problem is not unique to the pension area. The one insurance company that goes out of business gets far more copy than the hundred companies that just keep on doing business as usual.

In the employee benefit field we should be encouraging more communication between the actuary and the persons responsible for pension plan decisions and financing. More important, however, in spite of the difficulties, there should be an increased willingness to give more information to the plan participants themselves. More disclosure may be the least obnoxious imposition of those who are concerned about false expectations.

Certainly, in the past several years, there has been substantial growth in the number of companies issuing a personalized benefit report to each employee. Such a report, outlining benefits available on disability, death, hospitalization at retirement, and so forth, can be very meaningful to the individual employee.

The Wisconsin commissioner of insurance periodically reviews the trusts and the actuarial status of plans covering employees in the state of Wisconsin. After this review, the commissioner issues a "Report to Fund Participants" regarding the status of the plan. Beginning with the reports issued this year, the "Report to Fund Participants" will include a statement from the actuary comparing the assets held with the liability for all benefits which are vested. The statement is to be presented as

part of the report from the commissioner, in the exact form submitted by the actuary.

What is the actuary's particular responsibility in this communication process? First, I think he should try to co-operate. Supplying this detailed information without all the proper qualifications may represent a particular hangup for the actuary, because he may be one of the few people who realizes all the qualifying statements which are appropriate. Yet the whole purpose of the report—to improve understanding—may be thwarted if the actuary insists on all the qualifications.

Many of the individual benefit statements include a section indicating what the benefits are worth. Certainly some actuarial perspective is needed in determining how to look at pension cost value to the individual employee and how to allocate group insurance cost. What do you do about group benefits that could not be purchased by an individual employee, and so forth?