



AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

*Stephen A. Alpert, MAAA, FSA, FCA, President*

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Bill Karbon  
President  
ASPPA College of Pension Actuaries

John Markley  
President-Elect  
ASPPA College of Pension Actuaries

Dear Bill and John,

During the past year, the Academy's Board, through its Executive Committee and Strategic Planning Committee, has been considering ways to protect and strengthen the independence of the Actuarial Standards Board and the ABCD. One area of the Committee's focus has been the functioning of the Selection Committee for those two bodies, and whether it is functioning properly and appointing individuals who are broadly representative of all areas of actuarial practice who are free from commercial influence and interests. Maintaining the independence and objectivity of both the ASB and ABCD is key to maintaining public confidence in the U.S. actuarial profession's ability to self-regulate.

Given the current structure of the Selection Committee, which automatically included the presidents and presidents-elect of the five major U.S. actuarial organizations, the Board found it is important to ensure that each organization's mission is compatible with the ASB's and ABCD's mission. In addition, some Selection Committee members have noted that in recent years the Committee's meetings have become increasingly contentious, and that some Committee members have been more inclined to advance or oppose specific candidates based on their views about specific issues, rather than evaluating them based on their professional qualifications. Neither ASB nor ABCD members are expected to represent the interests of specific commercial constituencies or come to their tasks with a view to the outcome of certain issues that might come before either board; to the contrary, while both boards are intended to be "broadly representative of all areas of actuarial practice," they are bodies where members are expected to leave their parochial interests at the door and act in the interest of the profession and the public as a whole.

As the result of these concerns, the Board asked the Academy's Strategic Planning Committee to consider the following questions:

1. Should the other four U.S. actuarial organizations continue to be represented on the Selection Committee? Should the existing nature of the other organizations affect this consideration (education and research, trade organization, national organization, etc.)?
2. Should the Selection Committee have members outside the currently specified membership?
3. Should each member of the Selection Committee have an equal vote?
4. Is the Selection Committee the appropriate group to select members for the ABCD and ASB?

In its reporting to the Academy's Board over many months, the SPC reviewed the missions and activities of the five U.S.-based actuarial organizations and noted that their "primary distinguishing features" relate to "membership (size and practice areas), education, general focus/mission, and lobbying. Among its findings were:

- CCA and ACOPA, unlike the other three organizations, are focused on supporting commercial interests of specific segments of actuaries.
- Partly as a consequence of the foregoing, most members of CCA and ACOPA are also members of one or more of the more broadly based actuarial professional organizations and the Selection Committee will not lose their perspective.
- ACOPA, uniquely among the five groups, lobbies extensively for the commercial benefit of its members on pension issues, a logical extension of its role as the subsidiary of ASPPA and the American Retirement Association, a trade association for the retirement industry. (This observation is not in any way a criticism of ACOPA – this activity is a logical part of its mission and fulfills an important need for its members.)
- CCA's focus on the business needs of consulting actuaries has served its constituency well and its members are strongly supportive of CCA advocating for the policy goals of its members to serve their business needs, which it does.
- Past and current Academy presidents have noted increasing contentiousness at Selection Committee meetings, which they at least partly ascribe to ACOPA's and CCA's unique focus on a particular aspect of actuarial practice, and their desire to ensure those interests (and their clients' interests) are represented on the ASB and ABCD. The SPC's report observed that such an approach "is inconsistent with a selection process that must result in ABCD and ASB members that are objective, independent, and whose areas of expertise broadly encompass all areas of actuarial practice."

For those reasons, the report concluded that the focus of CCA and ACOPA raises concerns, noting that "the process for selecting members of these Boards must be free from conflict of interest, both real and apparent." It noted that this concern is heightened by the Selection Committee's power to remove members of either the ASB or the ABCD before the expiration of their terms.

In formulating its recommendations, the report considered various options, including changing the Selection Committee composition so that it would not be limited to the leaders of the five organizations, an approach that would enable the ASB and ABCD to select their own successors, or an approach that would create an entirely independent body as the appointing authority. It also considered adoption of a weighted voting system and other procedural changes.

These measures, however, were determined by the SPC to be inadequate. For example, the creation of an independent appointing authority has been attempted by the Canadian Institute of Actuaries and, in our view, has proved problematic. Adjustments to voting procedures were deemed inadequate because the Selection Committee strives to act by consensus rather than through formal votes. And other procedural adjustments, such as a reminder before every meeting to leave sector-specific interests at the door, have been ineffective.

Therefore, the SPC recommended that the public and the profession would be best served by a Selection Committee comprised of the president and president-elect of the Academy, the CAS, and the SOA.

After thorough review over several months by the Academy Board's Executive Committee, the matter was conclusively considered by the full Board at its meeting earlier this week. At that meeting, the Board decided to amend the bylaws with immediate effect to adopt the Selection Committee composition as recommended by the SPC.

We want to emphasize as strongly as possible that this action reflects not a criticism of ACOPA but rather a recognition that ACOPA, CCA, and the Academy, CAS, and SOA have different, and equally legitimate, missions. The ASPPA College of Pension Actuaries is a highly regarded group of small pension plan actuaries that advocate effectively for their interests in maintaining pension benefits in plans its members serve. Its members are well-served by it. Indeed, freedom from their role on the Selection Committee may give ACOPA's leaders even greater flexibility in carrying out the organization's mission.

I also want to emphasize that this change in the composition of the Selection Committee does not and will not mean that the perspective of small pension plan actuaries will be excluded. Almost all the members of ACOPA and CCA are also members of at least one of the other three organizations, and the Academy's bylaws continue to require that the ASB and ABCD "broadly encompass all areas of actuarial practice." In fact, only approximately 170 out of 27,000 U.S. actuaries are members of ACOPA and not of one of the three remaining organizations. Our goal is to retain that important perspective without those members feeling that they are obliged to narrowly represent the institutional interests of their organization.

We appreciate your understanding and look forward to continuing a cordial relationship.

Stephen A. Alpert, MAAA, FSA, FCA  
President