

The Actuarial Update

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Social Security's Safeguard: Who's Going to Blow the Whistle?

A Commentary on the "Report of the Public Trustees Working Group on the Measurement of Trust Fund Financial Condition"

by John C. Wilkin

The Social Security Trustees' decision to drop the test of "close actuarial balance" in their 1989 report reminds me of the circumstances surrounding a serious train accident in Maryland several years ago. A freight train engineer, apparently ignoring warning signals to stop, had changed tracks right in front of an Amtrak passenger train. The Amtrak train plowed into the back of the freight train, killing many persons. One signal that was not heard was a whistle right in the engineer's compartment. It seems that the whistle had made irritating noises in the past, and so the engineer had taped it so that it could not function.

The test of close actuarial balance is comparable to such a warning device. The recently reported recommendations of the Public Trustees Working Group replace the test of close actuarial balance (the old warning whistle) that the Trustees removed. In effect, the working group's recommendations put tape over Social Security's financial warning whistle, impeding its function.

For more than thirty years, the test of "close actuarial balance" has helped alert Congress and the public to Social Security's potential financial problems. The test was used to measure the adequacy of the Social Security system's financing over the seventy-five-year, or long-range period. If the system's income was projected to be within 95% to 105% of its projected outgo over the long-range period, then the system was considered to be in close actuarial balance.

Last August, the Public Trustees Working Group was formed at the suggestion of the two "public" members of the Board of Trustees, Mary Fuller

and Suzanne Jaffe. They were concerned by the backlash of opinion resulting from the Trustees' decision to eliminate the traditional test of close actuarial balance from the 1989 Trustees Report.

Chaired by Fuller and Jaffe, the nine-member working group included actuaries, economists, and pension experts. The two representatives from the actuarial community were John Kittredge, Academy board member and retired executive vice president of Prudential Insurance Company of America, and Walter Shur, executive vice president of New York Life Insurance Company. The other members were Gary Burtless (Brookings Institution), Marcy Elkind (Pension Economics), Dallas Salisbury (Employee Benefit Research Institute), David Walker (Arthur Andersen & Company), and Carolyn Weaver (American Enterprise Institute).

The working group was charged with reviewing the concept of close actuarial balance and evaluating other measures that could be used to assess the financial status of the Social Security program.

Controversy Over Close Actuarial Balance

Controversy had been brewing over the test for several years. Much of the controversy stemmed from the financing schedule adopted in the 1983 amendments to Social Security, which placed the system in close actuarial balance by running huge surpluses during the first half of the long-range period, followed by huge deficits during the second half. Each year since 1983,

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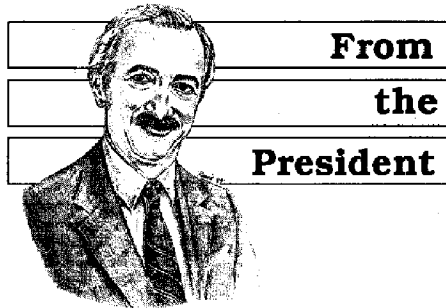
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Harold J. Brownlee

An Annual Meeting, Tailored to Fit

The principal purpose of the American Academy of Actuaries is to speak out on issues that have actuarial implications. To do this effectively, we need to identify the issues, decide what to say, and find the proper forum in which to say it.

As the Academy's committees and staff are becoming more and more proactive, we are looking for ways to facilitate this process. One such way is to change the venue and format of the Academy's Annual Meeting to focus on the Academy's public policy efforts.

The Academy's 1990 Annual Meeting, to be held September 26 in Washington, D.C., will reflect just such a focus.

A Break with Tradition

In the past, the Annual Meeting has been held in conjunction with the fall meeting of one of our founding organizations, either the Casualty Actuarial Society (CAS), the Conference of Actuaries in Public Practice (CAPP), or the Society of Actuaries (SOA). Of course, meetings of the CAS, CAPP, and the SOA are for the general purpose of educating members in matters useful to them in their practice as actuaries. Typically the meetings have involved actuaries talking to each other about technical matters, even though recent years have seen an increase in the number of outside speakers.

Beginning in 1990, the Academy Annual Meeting will be distinct from the other actuarial meetings. From now on, the one-day Annual Meeting program will center on current public policy issues of concern to the profession, and the Academy's related government information and public relations activities.

It makes sense for the Academy's meeting to be used, not for actuaries to talk to each other about their work (the other professional meetings provide that

opportunity), but for all of us who attend, to find ways to improve the quantity and quality of our public-issues activity in the coming year and far into the future.

The Annual Meeting should be considered a professional seminar on the identification and management of public issues. It should focus on what ordinary members, committee members, committee chairs, officers, and directors can do to contribute effectively to public policy debates. Such a meeting would be valuable for all Academy members, but especially so for committee members, directors, and officers.

Four-Part Format Taking Shape

The 1990 Annual Meeting, as it is now planned, will have four segments. The first will be the official business session, which, as in years past, will consist of a report from the nominating committee and the election of directors.

The second part of the 1990 meeting will be the Washington Briefing, which had been held in the spring. The briefing, designed to bring us all up to speed on issues in Washington, will feature key speakers from the Administration, regulatory agencies, and Capitol Hill. The speakers will identify the key issues that are being given attention in Washington, as well as provide us with background on the concerns of legislators and regulators. The third part of the program will be a luncheon featuring a major keynote speaker from the Washington scene.

Following the luncheon, the fourth and final segment will consist of concurrent sessions, one for each of the Academy's practice councils. As you may recall from an article in the February *Update*, there are five practice councils. One is for the general area of professional responsibility, the others for the four practice areas of

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The Update welcomes letters from readers. Letters for publication must include the writer's name, address, and telephone number, and should be clearly marked as Letters to the Editor submissions. Letters may be edited for style and space requirements.

Letters to the Editor

Nonforfeiture Debate Refereed

I read with interest the dialogue between Doug Hawley and Walter Miller in the February 1990 *Update*. Neither one scored a knockout punch, but my scorecard showed Hawley the clear winner on points. Here's how I evaluate the rounds.

1. "Nonforfeiture values will be mandated." There was no response to Hawley's characterization of this as "a self-fulfilling prophecy." In fact, given the audience of the report, perhaps it was more in the nature of a tautology. **Round 1 to Hawley.**

2. "Paid-up insurance is a benefit that satisfies nonforfeiture equity." Since his letter was based on an executive summary that did not specify what kinds of paid-up options were meant, Hawley properly raised some questions about alternatives. Miller replied to the first question, but failed to clarify the committee's position on policy loans. **Round 2 a draw.**

3. "The asset share is an appropriate value on which to base minimum nonforfeiture benefits." Hawley points out that making asset shares the standard is inconsistent with other parts of the report. Miller responds by reasserting that the present methodology is compatible with asset shares, and he cites tests done by his and previous committees. Perhaps the committees only used asset shares for companies licensed in New York, and presumably those asset shares are different from those I have seen for non-New York companies. Generally, it takes at least seven years to break even, and for a considerable time after that the mandated cash values can exceed the asset share. Pricing actuaries are forced to use a double decrement model to properly determine the higher premiums needed to support minimum statutory cash values. Miller fails to address the inconsistency with the rest of the report. **Round 3 to Hawley.**

4. "The methodology of the current Standard Nonforfeiture Law still works." Give me a break! If it still works, why did we need a committee? **Round 4 to the critics, including Hawley.**

5. "A retrospective [approach was rejected]." Hawley cites numerous advantages of the retrospective approach. Miller continues to claim a

retrospective approach cannot be workable without rate regulation. As Hawley points out, rate regulation is already a reality. Another example of it is the pressure by the regulators to bring back deficiency reserves. Nobody has yet criticized that proposal as unwarranted rate regulation, yet I view it as more pernicious, and far worse for the consumer, than the rules for retrospective cash values. Indeed, for traditional products, there is no need to control each aspect of the retrospective formula. Simply require that the formula produce a value at maturity within a suitable corridor (for rounding) from the maturity value.

Experience with annuity design is also instructive. If statutory limits on loads and charges were the controlling factors, most annuity products would be at or near these regulatory maximums. They are far lower, and the reason is obvious: DISCLOSURE. Federal regulations for IRA contracts mandated an example for the client of how his money would accumulate. It is about time for the life insurance industry to give our policyholders a bit more credit for intelligence. Disclosure of loads, charges, and fees, along with benefit projections, will do more to produce appropriate cash value patterns than all the advisory committees in the world. **Round 5 to Hawley.**

6. "Cash values . . . linked to paid up values." Let's see if I understand the committee's proposal. Using an approach like the present law, calculate a schedule of values, one for each policy duration. These values used to be the minimum cash values, but now they are something else, since cash values are no longer required. Use these "something else" numbers to calculate the required minimum paid-up benefits. Then, if you want to give cash values, they must be tied to the paid-up benefits. I shudder to think how the tests for smoothness of grading will be applied. In classic understatement, Hawley calls this an "arbitrary approach." **Round 6 to Hawley.**

Doug Hawley won the exchange and retains his title of champion iconoclast. In addition to supporting the points he raised, I would like to express my disappointment with the approach taken by the committee. Since their charge was to review the PRINCIPLES underlying nonforfeiture, I really expected them to go back to the basic philosophy of why nonforfeiture values were mandated, and what purposes they were expected to serve. With this background they could evaluate alternative approaches to serving the needs of the public.

Instead, they seem to have taken the position that the status quo is just

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"Everybody wants to know Jim: is it stress, or are you just experimenting with a new mouse?"

SOCIAL SECURITY'S SAFEGUARD

(continued from page 1)

as the deficit years moved nearer and as the actuarial assumptions were changed, the long-range actuarial balance gradually became more negative.

Only a change in the method of calculating the actuarial balance (which was an improvement, in my opinion) prevented the system from falling out of close actuarial balance at the time of the 1988 Trustees Report. The 1989 Trustees Report would have reflected that the system *had* fallen out of close actuarial balance, except that the test was dropped from the 1989 report.

Given the extreme political sensitivity surrounding Social Security, the pressure to avoid "unpleasant news" can be substantial. It is clear that the Trustees did not want the Social Security system labeled "out of close actuarial balance," which would have implied that corrective action, in the form of raising taxes or cutting benefits, was necessary. The Trustees believed that a program that was taking in billions of dollars more each year than were going out should not be labeled "unsound," and that no action was necessary. Thus, although the long-term deficits were described in the 1989 Trustees Report, their seriousness tended to be minimized. The first page of the 1989 Report states ". . . the expected accumulation of the trust funds during the next twenty to thirty years provides ample time to monitor the financial status of the program and to take corrective action at some time in the future if it still appears to be warranted at that time."

Working Group's Recommendations

"Taking into account the various purposes and audiences that need to be served by the Trustees Reports," the Public Trustees Working Group submitted its final report to the Board of Trustees on January 17, 1990. The working group's report reflected the following key conclusions:

- A portfolio of measures of short- and long-term trust fund status, along with a summary evaluation of these measures, is essential to accurately portray the financial condition of the Social Security system.

- The decision as to what measures to use in the Trustees Reports is the responsibility of the Trustees.

- Each of the Trustees Reports should feature an Assessment and Statement of Opinion by the Trustees.

- There is a need to clarify the division of responsibilities and authority between the Trustees and the chief actuaries of the Social Security Administration and the Health Care Financing Administration, with regard to the determination of assumptions and methodologies and any expressions of opinion regarding the trust funds.

- The short-term projection period shown in the Trustees Reports for the Social Security trust funds—Old-Age, Survivors, and Disability Insurance (OASDI), Hospital Insurance (HI), and Supplementary Medical Insurance (SMI)—should be increased to ten years.

- Every effort should be made to illuminate the condition of the trust funds throughout their full long-range projection periods.

With respect to the question of long-range tests of financial status, the Public Trustees Working Group had several specific recommendations. First, the working group recommended not using the test of close actuarial balance, on the grounds that "a pronouncement by the Trustees that the system is or is not in close actuarial balance will be interpreted as a conclusive statement as to the financial condition of the system."

At the same time, the working group recognized that "the underlying calculation of actuarial balance provides useful information for signaling a potential deterioration in the condition of the trust funds that may warrant attention by Congress and the public." Thus, they called for the Trustees to issue a "Statement of Opinion" that would report when the long-range income rate fell below 95% of the long-range cost rate.

This test is exactly equivalent to failing the test of close actuarial balance on the deficit side. The group goes on, however, to emphasize that "this measure, standing alone, cannot be used to assess the timing or nature of the long-term financing problem." Further, they specified that if the income rate were within 95% to 105% of the cost rate, this should not trigger a statement that the long-range financing was in close actuarial balance, because it may be misconstrued as meaning that the long-range financing is without problems.

Academy and SOA Recommendations

Meanwhile, the social insurance committees of the Academy and the Society of Actuaries (SOA) had been independently working on position papers concerning the test of close actuarial balance. In August 1989, the committees joined forces and issued a summary position statement recommending to the Board of Trustees that the test of close actuarial balance be reinstated and strengthened.

More specifically, the Academy and SOA joint committee suggested that the calculation of the seventy-five-year or long-term actuarial balance reflect interest earnings and include an ending trust fund level equal to one year's expenditures. (Currently, exact actuarial balance is reached only if assets at the end of the projection period are exactly zero.)

Although the Public Trustees Working Group adopted this recommendation, it specified an ending asset level of 50% of one year's expenditures. Further, the working group recommended that the long-range test apply to OASDI over a seventy-five-year period, and to HI over a twenty-five-year period. The shorter period for HI was justified on the basis of the additional uncertainty associated with projections of hospital costs.

The Academy and SOA joint committee had recommended that the test apply to HI for the full seventy-five years, since the HI program would be just as strongly affected by the aging of the population as OASDI. It seemed undesirable to the committee to restrict the HI analysis to a period that fails to encompass the aging of the "baby boom" generation.

Other Recommendations

With respect to the SMI program, the working group recommended an extension of the projection period from the current three years to ten years. They opposed use of a seventy-five-year period on the grounds that the program is automatically kept in financial balance (through the annual redetermination of the premium and general revenue contribution amounts). However, this practice ignores the major effect that long-term demographics will have on program costs. Although the financing is automatically updated, the public should be made aware that the general revenue cost of SMI is likely to increase

even more rapidly than the cost of the HI program. For reasons of such public disclosure, it seemed reasonable to show SMI cost projections for the full seventy-five-year projection period.

In their "portfolio of measures," the working group also recommended a test that addressed the major weakness of close actuarial balance, that is, the need for a short-range test. The working group's test was a modified version of the test of short-range financial status proposed by the Academy and SOA committee. In essence, the short-range test would require that the ratio of trust fund assets to annual expenditures not fall below 50% during the short-range projection period. Whereas the Academy and SOA committee would have applied this test over a five-year period, the working group adopted a ten-year period instead.

A Remaining Question

I believe that the working group's aversion to the phrase "close actuarial balance" resulted in a report that was not as strong as it could have been. As noted above, the working group recommends use of a specific long-range test (based on the actuarial balance) but emphasizes that this test alone should not form the basis for an overall conclu-

sion. Yet, this concern of the working group has been addressed already in the Trustees Reports. The 1988 Trustees Report, for example, states that "a single measure over a long period, such as the actuarial balance, may not reveal problems which could occur during that period. Thus, other measures should also be considered." Adding the specific short-range test and changing the phrase "close actuarial balance" to "close long-range actuarial balance" would, in my opinion, have cleared up any confusion about the inapplicability of the long-range test to the short-range period.

The leeway permitted by the working group's recommendations could allow the Trustees to avoid an outright assessment that the actuarial status is unsatisfactory. Members of the Public Trustees Working Group are to be commended for erecting a new short-range financing warning whistle, but, unfortunately, they have muffled (yet not silenced) the long-range one.

Wilkin is a consulting actuary with the Actuarial Research Corporation in Annandale, Virginia. He served for eighteen years as an actuary at the Social Security Administration.

The Global Actuary

This new column will feature reports from the international actuarial organizations, as well as profile actuaries who either are practicing in other parts of the globe or who have ventured abroad and had a good look at some matter of actuarial business in a foreign land. We welcome your contributions or suggestions of individuals to profile in the coming months.

Report on the Twelfth Biennial IACA Meeting

by Leroy B. Parks, Jr.

Some 140 actuaries representing 14 nations convened in Auckland, New Zealand on February 18-23, 1990, for the Twelfth Biennial Conference of the International Association of Consulting Actuaries (IACA). The United States was represented by a forty-member delegation.

Established "to facilitate the exchange of views and information on an international basis between members on matters affecting their professional responsibilities as consulting actuaries . . .," the IACA first met in 1968, in Munich, West Germany. Since then, the IACA has met every other year in various cities around the world.

The conference began with a reception and dinner that was capped by a traditional Maori concert. During the week, members and accompanying persons had the opportunity to see the sights of Auckland, visit nearby vineyards, stroll along the black iron sands of the East Coast beaches, watch demonstrations of sheep shearing, tramp through a lush rain forest, sail in the Auckland harbor, and eat plenty of lamb. Such diversions allowed the members an occasional reprieve from the rigors of six days of professional meetings.

This year, the IACA conference program included twenty-one national reports from IACA members. These national reports detailed the trends and international events affecting the actuarial consulting profession, particularly since the IACA's last conference in 1988. Each national report provided timely information about the country's economy, political environment, legislative and regulatory activi-

National Release of Social Insurance Committee Statement

At a March 8th press conference in Washington, D.C., the Academy's Committee on Social Insurance released its fourteen-page "Statement on the Future Build-Up of the U.S. Social Security Trust Funds." The following is excerpted from the committee's public statement.

The Committee on Social Insurance of the American Academy of Actuaries strongly recommends that the OASDI Trust Funds be removed from the Gramm-Rudman-Hollings measure. The Committee also recommends that the long-term contribution schedule be strengthened so that the trust funds are actuarially sound in all future years.

If these two goals are achieved, the Committee could support either current-cost financing or the current method that, under intermediate assumptions, builds up substantial funds over the next four decades. The Committee believes that either method is actuarially sound so that the arguments for and against the build-up are political in nature.

Although either financing system is acceptable, the majority of the Committee believes that the current-cost method is preferable.

Next month's issue will feature a report on the March 8th press conference, which gained national exposure for the Social Insurance committee's report and launched this year's Forecast 2000 campaign.

(continued on overleaf)

ties as well as specific changes in public and private pension schemes. In addition, each report discussed the state of the actuarial profession within the particular country. Collectively, the national reports evidenced many changes affecting consulting actuaries globally, with some striking similarities among countries.

In addition to the national reports, some thirty papers were submitted to the conference, including nine from the United States. These papers were the subject of discussion, and frequently strong debate, at the various professional sessions that were held during the conference.

The session that generated the most papers, and perhaps the highest level of interest, focused on pension plan design. Papers in this category focused on such topics as: defined contribution versus defined benefit pension plans; who owns the pension surplus; inflation protection for pensions; issues relating to mergers and acquisitions; and executive pension plans.

Other topics discussed included:

- Where we are going as a profession (expansion into new fields, speaking out on public issues, the regulatory

environment, the impact of taxation and other government policies);

- Investment policy and strategy (performance measurement, fund manager selection, actuaries' fiduciary responsibilities);

- Actuarial consulting in insurance (property/casualty, life, health care, disability);

- Management of consulting firms (practice development, training, trends in human resource management, peer review, professional standards); and

- Accounting rules and practical experience (pension plans, postretirement life and health benefits).

At this year's conference, the United States' three-member delegation on the IACA Committee was reconstituted as a result of the retirement of Charles M. Beardsley, who completed his term on the committee. Joining the committee in his place is W. James MacGinnitie, past president of the Academy. Other U.S. members of the committee are Barnet N. Berin and Leroy B. Parks, Jr.

The committee confirmed that the thirteenth conference of IACA will be held on May 24-29, 1992, in Vancouver, British Columbia. And plans have

already begun for the fourteenth conference, tentatively scheduled for Hong Kong in 1994.

IACA has a worldwide membership of over 600 actuaries, including 125 regular members in the United States. The U.S. committee is entertaining applications for new members from qualified actuaries. Requirements for membership include Fellowship in the Society of Actuaries or Casualty Actuarial Society with three to five years of full-time consulting experience, depending on years of Fellowship status. Actuaries interested in considering membership should contact me at my Yearbook address to receive an application.

Parks, vice president and actuary with The Wyatt Company, is one of three members on the U.S. Committee for IACA.

Setting the Course for Standards Enforcement

by James J. Murphy

One of the hallmarks of a profession is its duty to act in the public interest. To guide actuaries in meeting their public responsibilities, the Academy requires that its members comply with professional standards. These professional standards fall into the following three groups:

- Standards of behavior and conduct as contained in the *Guides and Interpretative Opinions as to Professional Conduct*,

- Qualification standards that describe the basic education, experience, and continuing education requirements for specific functions, and

- Standards of practice that are developed and promulgated by the Actuarial Standards Board.

Mechanisms for the promulgation of professional standards have been set in place. The Academy's Committee on Guides to Professional Conduct and Committee on Qualifications are responsible for developing standards relating to professional conduct and minimum qualification standards. The

A "Yuk" from Auckland

In-House Staff Training Programmes

Self Improvement

- SI100 Creative Suffering
- SI101 Overcoming Peace of Mind
- SI102 Ego Gratification through Violence
- SI103 Dealing with Post-Realisation Depression
- SI104 Overcoming Self-Doubt through Pretence & Ostentation
- SI105 Whine your Way to Alienation
- SI106 Feigning Knowledge—A Career Advancement Strategy
- SI107 Guilt Without Sex
- SI108 Keeping Facts out of your Management Structures
- SI109 Carrying pieces of paper while walking brisldy (refresher course)

Home Economics

- HE100 Cultivating Viruses in the Household Refrigerator
- HE101 Sinus Drainage in Modern Society

Home Economics (continued)

- HE102 Basic Kitchen Taxidermy
- HE103 Other Uses for your Vacuum Cleaner

Business and Career

- BC100 The Underachiever's Guide to Very Small Business Opportunities
- BC101 How to Profit from your Own Body
- BC102 Tattooing Your Colleagues as an Income Supplement
- BC103 Credit Purchasing with your Kidney Donor Card

Crafts

- C100 Bonsai your Pet
- C101 Self-Actualisation through Macrame
- C102 Origami for Self-Defence (Full Black Belt Instruction)...
- C104 Needlecraft for Vaccinators

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Actuarial Standards Board (ASB), operating as an independent entity within the Academy, has been in existence only a short while, but is making rapid progress in developing and adopting standards of practice.

It is obvious that a growing body of professional standards is being created, and, with this in mind, I would like to focus attention on a parallel need in meeting professional responsibilities: enforcement of professional standards. In the absence of enforcement, professional standards could become meaningless.

Enforcement of professional standards requires a variety of steps. First, of course, the standards must be promulgated and publicized throughout the profession and among its many publics. Second, a method for verifying compliance with the standards by actuaries is necessary. Third, counseling and advisory services should be available to actuaries who, for example, are working within the scope of a particular standard for the first time. Finally, an equitable yet effective disciplinary mechanism must be in place to deal with those individuals who intentionally and unjustifiably deviate from standards or engage in activities without any consideration of the applicable standards.

Individuals who violate professional standards currently are subject to the disciplinary authority of the Academy. Since its inception, the Academy has maintained a Committee on Discipline. This committee has the authority to consider complaints against Academy members concerning allegations of unethical conduct or unprofessional work products. Actions by the Academy's Committee on Discipline, to date, have tended to concentrate on violations of the standards of professional conduct and qualifications standards, largely because the literature relating to standards of practice has been incomplete or nonexistent in many areas of actuarial practice. However, as the ASB continues to promulgate standards of practice, future disciplinary activities will focus increasingly on these standards.

At its February meeting, the Academy's Executive Committee discussed enforcement of professional standards. The committee first reviewed two efforts, one by an Academy committee and one by an interorganizational group currently addressing enforcement issues. First, the Academy's Committee

on Property and Liability Financial Reporting is considering a project to review financial reports of insurers with adverse results, and to discuss the reasons for those results with the opining actuaries involved. This kind of active review could serve as an important mechanism for standards compliance. Second, the Interorganizational Task Force on Professionalism, chaired by Harry Garber and reporting to the Council of Presidents, is exploring ways of streamlining the process of investigating complaints and disciplining transgressors. One idea under consideration is the creation of an independent actuarial board for counseling and discipline, modeled on the ASB. The board would hold hearings and make recommendations to the various actuarial organizations. It would eliminate the private disciplinary admonishments and warnings, replacing them with more active counseling and advisory services. The final report of the task force is expected in June.

The Executive Committee discussed various considerations relating to enforcement and decided the biggest "holes" in the current system are compliance verification and monitoring. The committee was unanimous in its belief that the primary goal of enforcement should be to catch the problem at the beginning rather than at the end—that is, counseling and advisory services

should be available prior to the need for discipline. This is particularly true in cases of inadvertent failure to comply with standards. The committee agreed that, as the process currently exists, there is a mechanism to promulgate standards at one end and a disciplinary mechanism at the other end; what is missing is a procedure for dealing with enforcement and assuring compliance. With this in mind, the committee agreed to appoint a task force to consider how the Academy can best undertake a proactive approach to compliance monitoring.

Let me again emphasize that the creation of the ASB was a watershed event for the actuarial profession in the United States. The ASB's standards of practice combine with the Academy's standards of conduct and qualifications to provide a strong base for professionalism. However, in order for that base to have a truly meaningful impact on the actuarial profession and its various publics, standards of practice must be supported fully by a sound enforcement system. Therefore, the future work of the new Academy task force will be as significant as our ongoing efforts to promulgate standards of conduct, qualification, and practice.

Murphy is Academy executive vice president.

LETTERS TO THE EDITOR

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ideal. When issues arise that show just how leaky and creaky the Standard Nonforfeiture Law is, they respond by "fixing" it with chewing gum and baling wire. How about some really different approaches? If we were to agree, for instance, that reduced-paid-up benefits are all you need, they could be mandated by straight-line interpolation from zero at duration ten to 100% at maturity. Then the only debate is over what year to start at: five? seven? three? twenty-two?

Perhaps we in the profession let the committee down by not offering more off-the-wall ideas like this one. Shane Chalke, at least, asked what alternatives might exist. Ironically, it appears that he chose one with historic relevance. According to one story, an early actuary proposed mandating nonforfeiture benefits because he was appalled at the dehumanizing aspect of

public auctions of policies by people sorely in need of cash.

Let's all give some thought to the philosophy of why we have nonforfeiture requirements, and how we can meet our professional responsibility to the public by creating and using analytical tools that meet the needs of all concerned.

Carol A. Marler
Ontario, California

Kudos to King

Roland King's fearless lead article (February *Update*) about our elected officials' tendency to adopt social programs without appropriate regard for the financial consequences was excellent. If more actuaries had the courage to speak out like this, in the private as well as the public arena, it would eventually bring a higher level of integrity to the nation's financial/social decisions.

A. Haeworth Robertson
Washington, D.C.

Checklist of Academy Statements February/March 1990

TO: State of Missouri, Hearing Officer, Division of Insurance, February 20, 1990. RE: Proposed amendment to Rule 4 CSR 190-11.185 concerning actuarial certification of annual statements. BACKGROUND: The proposed amendment to the Missouri Code of State Regulations would have required annual statements of actuarial opinion for all health service corporations, property and liability insurers, and life insurers. The Academy's statement addressed only one minor point of disagreement: that membership in the Academy is the appropriate qualification for such opinions, and that additional membership requirements are unnecessary or inappropriate. Thus, the statement recommended that the additional requirements for CAS and SOA membership in the proposed amendment to Missouri regulations be stricken.

TO: Financial Accounting Standards Board, February 28, 1990. RE: The definition of plan changes for retiree medical plans. BACKGROUND: The Academy Subcommittee on Retiree Benefits is providing technical assistance to the FASB members and staff on the issue of measuring liabilities associated with postretirement benefits other than pensions (OPBs). This statement is in response to a FASB member's request for a definition of what constitutes an existing health plan and what should be considered a plan amendment. The distinction is important for FASB's determination of a method under which plan amendments would be explicitly considered for purposes of measuring changes in an employer's OPB obligation and cost.

TO: State of New Jersey Legislators, March 2, 1990. RE: New Jersey Bill S-2295/A-1, the Fair Automobile Insurance Reform Act of 1990. BACKGROUND: S-2295, a bill before the New Jersey State Legislature, would overhaul the state's current auto insurance system. New Jersey has among the highest automobile insurance premiums in the country, and the system is still operating at a loss. In 1988, insurers in the voluntary market had an operating loss of \$100 million; the New Jersey Full Insurance Underwriting Association, the insurance fund for the residual market, has an operating deficit of over \$3 billion; and the Unsatisfied Claim and Judgment Fund is estimated to have a deficit of well over \$2 billion. The statement analyzes changes proposed in S-2295 from an actuarial perspective. The proposed reforms violate basic risk classification principles and rearrange the financing of the system without addressing the current imbalances. Thus, the statement concludes that costs for providing automobile insurance in New Jersey are likely to continue to exceed revenues.

TO: Public policy makers, March 6, 1990. RE: The future build-up of the Social Security OASDI Trust Funds. BACKGROUND: (See announcement regarding the Social Insurance Committee statement on page 5).

TO: The Committee on Ways and Means of the U.S. House of Representatives, March 9, 1990. RE: The impact, effectiveness, and fairness of the Tax Reform Act of 1986. BACKGROUND: In this statement for the hearing record, the Pension Committee analyzes the changes made in 1986 to the rules governing qualified pension plans. The committee's major findings include: The current contribution limits are appropriate and are also achieving their intended purpose, although some adjustment in their technical operation is desirable. The operation of the Section 415(b) dollar limit for defined benefit plans should be studied to assure that it is not impeding the proper advanced funding of future benefits for middle- and upper-middle-income workers. Further restrictions are needed to prevent the use of retirement savings for other purposes. The distribution rules enacted in 1986 need to be simplified and applied more consistently. The nondiscrimination rules created by the Tax Reform Act of 1986 will not work. Employers and practitioners need more time to adjust when Congress enacts changes that require significant new regulations.

FROM THE PRESIDENT

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casualty, health, life, and pensions. Each council consists of one Academy vice president, two directors, the chairs of the appropriate committees, and any additional members needed to help with the council's work. We have great hope that this method of organizing the work of Academy committees will improve their effectiveness in speaking out on public issues.

At the 1990 Annual Meeting, each council will be identifying issues for committees in its practice area and discussing possible positions for public statements. These working sessions will be open so that members who are attending the Annual Meeting may listen as council members discuss the pressing issues within their practice area.

At the beginning of this editorial I emphasized that we need to identify issues, decide what to say, and then find a forum in which to say it. The morning part of the Annual Meeting will help us to identify issues and the afternoon part to decide what to say. Then, once committees prepare public statements, our Washington office staff will make sure that we are able to present them in the right forums.

See you in Washington this September! Δ

Nominating Committee Thanks Membership

Nominating Committee Chair John Fibiger is pleased to announce that over one hundred suggested nominees for directors and officers of the Academy were received pursuant to this year's call for nominations. Not only was the level of response high, so was the quality and diversity of those nominated. The Nominating Committee looks forward to considering each nominee and putting together an excellent slate of candidates in time for the Annual Meeting in September.