



American Academy of Actuaries

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NEWSLETTER

MAY 1976

ACADEMY PRESENTS STATEMENT TO ABA HEARING ON UNAUTHORIZED PRACTICE OF LAW

Representatives of the Academy presented a statement at a hearing on the unauthorized practice of law as it pertains to employee benefit plans which was conducted by the American Bar Association on April 3 in New York City. The oral presentation was made by Academy President Thomas P. Bowles, Jr., Vice-President Edwin F. Boynton, Harrison Givens, Jr., and Rowland E. Cross.

Following the presentation, in response to a question concerning specific changes, President Bowles offered to establish a committee or task force to work with the ABA Committee on a new draft.

Members and Affiliates may obtain a full copy of the Academy's statement by writing to our Chicago office.

The statement pointed out that there are three general areas involved in the design and implementation of an employee benefit program, with particular emphasis on pension plans: (1) design, (2) document preparation, and (3) interpretation and administration.

Examples were given of the considerations involved in plan design which do not necessarily require the participation of legal counsel.

In the area of drafting of documents, on the other hand, the Academy agreed that it would be imprudent for any organization to adopt a plan without a legal review and opinion.

With regard to interpretations of the law as applied to pension plans, it was pointed out that there are many actuarial interpretations built into the law and into plans. Some examples of gray areas which generally require actuarial expertise in which most lawyers have no background or training pre-dated ERISA, while others were created by it: in the former category were (1) determination of the maximum tax deductible

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ACADEMY APPOINTS FAUN H. BROWN AS ADMINISTRATIVE ASSISTANT

The Academy is pleased to announce the appointment of Faun H. Brown as Administrative Assistant to the Executive Director effective April 12, 1976.

Her responsibilities include all administrative support services in the Washington office and special projects at the direction of the Executive Director.

Ms. Brown will be available to arrange facilities for committee meetings in Washington at the request of committee chairmen.

ACADEMY COMMENTS ON AICPA POSITION ON FASB MEMORANDUM

by Walter L. Grace

The Academy has commented on recommendations made by the American Institute of Certified Public Accountants (AICPA) in their response to the Discussion Memorandum on "Accounting and Reporting for Employee Benefit Plans" issued by the Financial Accounting Standards Board (FASB).

Vice President Edwin F. Boynton stated in a letter to the FASB dated April 9, 1976 that "It appears to us many of the recommendations made in that letter (from the AICPA Accounting Standards Task Force on Pension Plans), if adopted, would create many problems in establishing the respective responsibilities of the actuarial and accounting professions in dealing with pension plans. We believe it would lead to a duplication of effort and considerable confusion among plan participants as to the actuarial status of their plans.

"Accordingly, the attached paper has been prepared, discussing the respective roles of the accounting and actuarial professions in the preparation of financial and actuarial statements of pension funds and pension plans, particularly as they relate to the requirements of ERISA."

The attached paper included with Mr. Boynton's letter is entitled "Relationships Between the Accounting and Actuarial Professions Regarding Pension Plans." A copy of Mr. Boynton's letter and the attached paper are available to any Academy Member or Affiliate upon request to the Academy's Chicago office.

The paper notes that requests for substantial information of an actuarial nature have been received from some accounting firms which do not appear necessary to fulfill the requirements of ERISA. It appears to be the opinion of the AICPA that there should be a substantial enlargement of the role of accountants in the determination of the actuarial liabilities of a pension plan

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PUBLIC SERVICE MESSAGE FEATURES INFORMATION BY C.L. TROWBRIDGE

Academy member C. L. Trowbridge prepared the information contained in "an impartial message in the public interest" entitled "What Am I to Believe About the Social Security System?" which appeared in a full-page advertisement in *The Wall Street Journal*, on April 20, 1976.

The advertisement also contains a brief biographical sketch of Mr. Trowbridge highlighting his professional honors.

A copy of the complete paper may be obtained at no cost by writing to The Bankers Life, Consumer Services SS1, 711 High Street, Des Moines, Iowa 50307.

NEWSLETTER

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The Academy is not responsible for statements made or opinions expressed in the articles, criticisms and discussions in this publication.

ACADEMY MAKES CHANGES IN NEWSLETTER PUBLICATION SCHEDULE

This issue of the *Newsletter* should reach its readers at least a month earlier than the corresponding issue in prior years.

The publishing schedule is being changed from four times a year (March, June, September and December) to every other month, on a trial basis. The first three issues will be dated May, July and September, and we plan to mail them in late May, mid-July and mid-September, respectively.

Deadlines for submitting articles for the July and September issues are June 1 and August 2, respectively.

BOARD OF DIRECTORS REVISES GUIDES AND OPINIONS ON PROFESSIONAL CONDUCT

by Mary H. Adams

When the 1976 *Year Book* is distributed shortly, there will be some changes in the Guides to Professional Conduct and Opinions as to Professional Conduct. Technical changes were made to take into account the applicability of the Guides and Opinions to Affiliates as well as to Members of the Academy. For the first time, the year in which each of the Opinions was adopted, or revised, by the Board of Directors is included.

An addition to Opinion A-3 was adopted by the Board of Directors at its October 18, 1975 meeting, and is newly published in the *Year Book*. This addition, "Actuary in Relation to Legislation and Regulations," covers the actuary's responsibilities when he is involved in the preparation of actuarial material upon which legislative or regulatory decisions may have reliance. The Academy's Committee on Guides to Professional Conduct drafted this opinion as an extension of an opinion, proposed by the Casualty Actuarial Society's Committee, which arose in connection with rate-making for no-fault insurance. The addition to Opinion A-3 applies to all forms of insurance or other actuarial reporting with respect to all types of regulation at the state and Federal levels.

Some changes were made in Opinion A-5: "Qualifications to Give Advice in a Specific Situation." These changes were proposed by the Committee on Guides to Professional Conduct, in response to the need for clarification of the original A-5. There had been criticism that the original A-5 could appear to require an actuary to have specific experience in a particular field before he could accept an assignment in that field, thereby precluding an actuary's attempt to venture into new, unexplored area. Opinion A-5, as revised, was adopted by the Board of Directors at the October 18, 1975 meeting.

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contribution, (2) integration with Social Security, (3) certification of benefits, (4) computation of actuarial equivalents, (5) Mimeograph 5717 limitations and (6) minimum funding agreements; in the latter category were (7) ERISA minimum funding, (8) actuarial assumptions and methods, (9) mergers and consolidation and (10) maximum benefits.

The Academy statement concluded with this summary: "The statements in the New York opinion concerning plan design are unduly restrictive in not recognizing many vital facets of plan design which do not involve legal considerations. In the area of drafting plan documents we fully subscribe to the views expressed in the New York opinion — that a layman should not give an opinion on any plan document that it complies with the law. Finally, in the area of interpretation, we feel that it is imperative that any guidelines accommodate actuaries, in making actuarial determinations required by the law for the plan."

PHOTOGRAPH CAPTIONS FOR PAGE THREE

Left to right: Top row: Leslie Shapiro, Executive Director, Joint Board for the Enrollment of Actuaries, Department of the Treasury; Russell J. Mueller, M.A.A.A., Actuary and Minority Legislative Associate, U.S. House of Representatives; Robert J. Myers, M.A.A.A., Professor of Actuarial Science, Temple University; Edwin F. Boynton, M.A.A.A., Actuary, The Wyatt Company.

Middle Row: Alvin H. Lurie, Assistant Commissioner for Employee Plans and Exempt Organizations, Internal Revenue Service; Francis V. Reilly, Specialist Assistant, Federal Insurance Administration, Department of Housing & Urban Development; James Hutchinson, Administrator, Pension and Welfare Benefit Programs, Department of Labor; John C. Burton, Chief Accountant, Securities and Exchange Commission; Rowland E. Cross, M.A.A.A., Chief-Pension Actuarial Branch—Internal Revenue Service.

Bottom Row: Stephen G. Kellison, M.A.A.A., Executive Director, American Academy of Actuaries; Donald S. Grubbs, Jr., M.A.A.A., George B. Buck Consulting Actuaries, Inc.; Robert C. Winters, M.A.A.A., Senior Vice-President, Prudential Insurance Company; Charles Skopic, Deputy Executive Director, Pension Benefit Guaranty Corporation; A. Haeworth Robertson, M.A.A.A., Chief Actuary, Social Security Administration.



Guests and Academy Officials at the Reception and Luncheon to Mark the Opening of the Washington Office, at the Madison Hotel, March 29, 1976.

ACTUARIES URGED—AND HELPED— TO TEACH ON SOCIAL SECURITY

by Robert J. Myers
and E. J. Moorhead

Public confidence in our Social Security system has been shaken by disclosures that, despite increased payroll taxes, shortages of funds will occur in the near future and again over the long run. The early difficulty is caused by a combination of unexpectedly large cost-of-living increases in benefits and imprudently large benefit increases that were legislated in 1969-72, unemployment, and rising disability awards. The long-range problem flows from the higher than expected ratio of retired people to workers, and from a flaw in the workings of the automatic-adjustment provisions of the benefit formula.

Most contributors and beneficiaries neither understand how the system works nor realize that the problems, though real enough, can be solved without upsetting the effectiveness and scope of the system.

All this gives actuaries an exceptional opportunity to render public service of a kind that we, by our training, are better equipped than any other group of citizens to offer. We can speak to community, business and labor groups, giving in capsule the basics of the system, the array of remedies being discussed, and the vital importance of Social Security to the economic and social fabric of this country.

The Academy Committee on Social Insurance has authorized distribution of what amounts to a speaker's kit for actuaries willing to assist with this task. The effort will, in the main, be launched through local actuarial clubs. Requests for the kit from individual actuaries also will be happily accommodated. Watch for this when the subject comes up at your own club meeting or through future notices in the *Newsletter*.

COMMITTEE ON ACTUARIAL PRINCIPLES AND PRACTICES IN CONNECTION WITH PENSION PLANS REPORTS

by A. Charles Howell

The Committee on Actuarial Principles and Practices in Connection with Pension Plans reports that review of its Recommendations with respect to the Calculation of Actuarial Present Values Under Pension Plans and to the Recognition of Inflation in such calculations has been completed. Final text of the Recommendations is now being edited for printing and distribution to Academy Members and Affiliates.

Exposure drafts of the Recommendations were distributed to members in April, 1975 and resulted in many detailed and helpful suggestions for clarification or change.

In subsequent *Newsletters*, the Committee plans to review the considerations involved in developing the Recommendations and to respond to questions about them or other work of the Committee.

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under which there are audit responsibilities. The Academy is seeking to clarify the respective responsibilities of the two professions under ERISA and its implications for any future promulgation by the FASB on the preparation of ERISA-required financial statements.

One of the key positions of the Academy is that the financial statement requirements, as spelled out in Section 103(b) of the Act in the phrase "a statement of assets and liabilities," are not intended to refer to actuarial liabilities of the *plan* but rather liabilities of the *fund*, such as pensions or expenses due and unpaid, etc. It is the responsibility of the enrolled actuary to provide the actuarial figures under Section 103 as well as to determine the minimum funding requirements under Section 302.

The AICPA response makes a number of recommendations as to the responsibilities of the accounting profession under ERISA. For example, the AICPA response suggested that the FASB should require the presentation of actuarial liability figures in the financial statement required by ERISA; that it should select a single cost method for calculating actuarial liabilities appearing on financial statements of pension funds; that it establish the guidelines for the selection of the appropriate interest rates; and it specify the adoption of certain standard tables and other assumptions. Generally, the AICPA position seems to be that the FASB should establish the actuarial basis for such costs, at least within a certain limited range.

It appears to be contrary to the intent of ERISA and not in the public interest to make the FASB or the accounting profession generally responsible for actuarial assumptions and methodology.

The paper points out that for many years the accounting and actuarial professions have worked closely together in providing needed services for private pension plans. This relationship has generally operated smoothly and harmoniously. Under ERISA it is important that close cooperation continue to exist between the two professions and that needless duplication of effort and expense be avoided. It is also important that each profession carry out only those responsibilities for which its members are fitted by education and training.

DEATHS

Michael I. Conahan, Enrolled 1968, Pennsylvania
George Fisanick, Charter Member, F.S.A., New York
James T. Hendrickson, Charter Member, F.S.A., Pennsylvania
Robert Kaplan, Enrolled 1966, A.C.A., District of Columbia