The Look-in-the-Mirror Test

PRECEPT 2 OF THE CODE OF PROFESSIONAL CONDUCT obligates us not to issue statements of actuarial opinion unless qualified to do so. Of course, the determination of "qualified" can be somewhat or completely subjective. The best gauge for this determination is often known as "the look-in-the-mirror test." In other words, if you can look yourself in the eye and confidently claim you can handle a particular project, you pass this test and could accept the job, assuming you can demonstrate accomplishment of the necessary basic education, continuing education, and experience requirements.

The Committee on Qualifications of the American Academy of Actuaries has recently released the second exposure draft revision of the "Qualification Standards (Including Continuing Education Requirements) for Actuaries Issuing Statements of Actuarial Opinion in the United States."

The comment deadline for this exposure draft was July 1, 2006. We hope many actuaries have expressed their support or ideas for modification. Regardless, we all need to be extremely aware of the qualification requirements. You simply must not agree to perform actuarial services for which you're not properly qualified.

I'm a classically trained pension actuary. My business partner has virtually the same training as I do. We became partners after we each acquired more than 20 years' experience in other firms, so we have some expertise that's different from each other's. Our firm is structured so it can accept unusual or complex projects because our combined and/or solo experiences complement each other's. However, there are projects that are completely or partly outside our scope of expertise. These projects we either decline or follow the qualification standards to develop an actuarial team to accommodate the scope of work.

ALAMY

Case Study 1: Other Post Employment Benefits

Project description: A well-respected general contractor in my village contacted me. I have often wished my firm was part of the advisory team for this obviously growing and innovative company. It was in a tough situation. The company needed a FAS106 report for its post-retirement health care program quickly. Company officials expected that the project would be simple because the participants in the program were a closed group.

Our qualifications dilemma: Upon investigation, I discovered that this program was completely self-funded. The routine funding had been determined actuarially using explicit assumptions as to all sorts of health care-related probabilities. The potential client was reluctant to release the name of the health actuary who had helped with routine funding calculations. I wasn't made privy to the reason that actuary wasn't called upon for this project.

We really, really wanted to show the company officials how helpful we could be to them, but we had very little experience in selecting assumptions for health care expenses. We wondered if being able to solve this particular immediate problem would endear us to them, so, whenever they needed pension advice, they'd call us.

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Our decision: We knew we weren't qualified to provide the actuarial services needed for this project by ourselves. We knew that the qualification standards expressly discuss statements of actuarial opinion issued by more than one actuary. We knew that we could team with health actuaries to perform the services needed for this project, but we also knew a health actuary was already involved with the setting of assumptions and performing the actuarial valuations for this employer-paid postemployment benefits client. It didn't make sense to us to try to scramble to find a new health actuary who could help us react to this urgent need when there were better and more efficient options for the client. We turned down the case. We advised the clients accordingly. (We still hope they'll call us when they need pension actuarial services, though.)

Case Study 2:
Government Pension Plan

Project description: The trustees of a police force pension fund asked us to consider becoming the enrolled actuaries for their plan. Their plan provisions are contained in state statute and are very complex. For example, there are three types of pre-retirement death benefits, two types of disability retirement benefits, and several definitions of retirement. The state permits municipalities to become trustees and administer their own plans. Such plans obtain their own actuarial support, too. Although the municipality hires the actuary, the fund trustees are plan participants and are concerned with the actuary's analysis and advice. Because the municipality has competing interests with those of the trustees, there is some tension as to the interpretation and reactions to the actuary's findings.

Our qualifications dilemma: The fund's actuary would need to have quite a multifaceted, customizable program available to perform actuarial valuations. The custom programming could be usable by several municipalities in the state. But the time and fees to set the program up for one plan may be prohibitive. Yet, we knew our expertise and the trustees' needs were a good fit.

Our decision: We decided to suggest that they hire an actuarial firm that had a number of these municipal plans as clients and had already developed the custom program to handle the complex benefits to perform actuarial valuations. We also suggested that our firm be retained to be actuarial advocates for the Board of Trustees. In this capacity, we would be at the meetings where any actuarial assumptions and/or methods were discussed and in which actuarial valuations were presented. We would be responsible for how these actuarial issues might affect the plan participants. We would attend trustee meetings as needed and report our analysis of the actuarial situation. We would also act as a communicator and educator among the municipality, trustees, and plan actuary.

We were retained in this capacity. We've served in this role for about five years. Tensions and misunderstandings have markedly diminished. The trustees have often remarked on their improved level of comfort with their understanding of the plan and its actuarial status. They also feel that they're in a much better environment for making reasoned decisions.

Long story short, we've learned to consider carefully each potential project. It's just as important professionally to know when to say "no" as it is, when to say "yes" or "maybe, with additional support." I believe that it's also important to document your files as to why you accepted an unusual project and how you'll adhere to the qualification standards during your tenure with this client.

On the other hand, it's refreshing and worthwhile to our industry for you to grow as an actuary by becoming experienced with related but non-customary work, just as long as you do so with integrity and proper qualified actuarial support. ●