

Too Little, Too Late

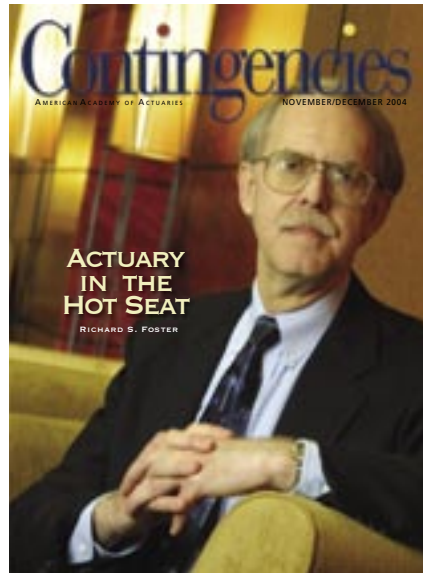
I'm happy to see the cover photo and extensive coverage of the controversy about the right and duty of a chief actuary in government to transmit technical cost estimates on proposed legislation to Congress. However, I believe the support given to Mr. Foster was too little and too late.

I believe that the Academy should have immediately issued a statement in support of Mr. Foster when the controversy first became public early last year. The statement need not, and probably should not, have opined on the validity of the cost projections in question. But the Academy should have issued a statement on the professional rights and responsibility of the chief actuary to communicate important public policy information to Congress and the public.

I have long been concerned about the failure of the American Academy of Actuaries to support actuaries in government service and to opine in a timely and direct manner on proposed legislation that alters the ability of the taxpayer to see the true cost of federal programs.

In 1979, the Academy assisted the United States Office of Management and Budget in developing the actuarial reporting standards for public pensions as defined under P.L. 95-595. This standard was in place until a few years ago when legislation reversed the requirement—a feat made easy since there was no organized effort to keep it in place or even to study the issue. The Academy did not intervene before the legislation was passed. In addition, after numerous requests for input by the Office of Management and Budget on what might be requested of agencies administratively, the Academy responded months too late to make an impact. Had this involved a change to the financial accounting of pension plans, I imagine that there would have been a big outcry from the accounting profession and immediate input.

Over the past 20 years, budgeting in the federal government has slowly moved to an accrual basis; many federal entitle-



ments have been funded so that the true cost of manpower is reflected in agency budgets. In the 1980s, the military retirement system became funded, and the defense personnel and pay accounts had to include additional funding to cover the normal cost for retirement.

Over the succeeding years, the same funding scheme was used for the new Federal Employees Retirement System, educational benefits for reservists, and a new military health benefit for Medicare-eligible retirees. As a result, any decision to increase or decrease manpower or benefit levels in these systems has been made using the full cost impact of the policy, and policy-makers have to make tough trade-offs in their determinations.

In November 2003, legislation was passed to increase military retirement benefits, but it stipulated that the associated increase in the normal cost—normally paid for in the Department of Defense (DOD) pay accounts—had to be covered by Treasury accounts that are not subject to appropriation. As a result, the cost of this added benefit was and continues to be well hidden from the general public.

To continue this trend, the 2005 National Defense Authorization Act signed into law in November 2004 included language that shifted the \$11 billion annual normal cost of military retired health

benefits out of the DOD pay accounts to Treasury accounts. The two independent boards of actuaries overseeing these systems wrote letters to Congress before the law was passed strongly opposing the changes and suggesting that they might resign. Copies of the letters were sent to the Academy, but there has been no comment by the Academy on these important issues.

I have held the position of chief actuary for large federal programs, and understand all too well how hard it is to recruit and retain actuaries for government service. Salaries are significantly lower; professional dues, examination fees, and study time are not covered; and it's difficult to fund the attendance at meetings necessary for continuing education. Federal actuaries are there because they have a passion for public service and the work is exciting. The job of these actuaries is to give all stakeholders their best estimates of the current and proposed costs of large entitlement systems, substituting "facts for appearances and demonstrations for impressions." As a profession, we should do everything possible to ensure that these actuaries have our support. If we do not, we risk losing the few we have and encouraging blind federal spending.

The Academy is quick to act with substantial resources and public statements on issues that threaten the financial structure of private pensions or the insurance industry. For instance, the Academy reacted quickly on the cash-balance plan issue and has often worked closely with the National Association of Insurance Commissioners in developing model legislation that has a major financial impact on insurance companies.

I propose an evenhanded and consistent approach to all actuarial issues in the public and private sectors. I recommend that the Academy put into place a standard process to consider timely public statements under which each recommendation would be considered on its merits. Any Academy member could make recommendations, and the resulting process through which the action is taken or not

taken could be disclosed.

I hope this letter raises awareness and encourages debate and action. In my opinion, the continuing failure of the Academy to support actuaries in public service raises the question as to whether there is any value to those actuaries' continuing to be members of the Academy.

EDWIN C. HUSTEAD
THE HAY GROUP, ARLINGTON, VA.

Soul Searching

I just read the November/December 2004 issue of *Contingencies* magazine. It's probably the most important issue of the magazine that our profession has ever seen. I was also privileged to attend the Casualty Actuarial Society (CAS) meet-



ing and joint CAS/Canadian Institute of Actuaries meeting, in Montreal. At that meeting, a number of sessions related to

ethics, public responsibility, and issues revolving around Actuarial Statements of Opinion and loss reserves.

I do wonder, though, if the actuarial profession in the United States is being fully honest with itself. At the sessions, we learned about how the profession is spending a lot of time doing research on adverse development, uncertainty, uncertain events, training and educational shortfalls, etc. Certainly these are important issues that we need to better understand. We also need to continue to educate the public about these issues.

However, based on what I've seen in my career, we may be missing the point. Could it just be that some of us are writing opinions that we know—in our hearts, in our gut—are just not honest? Are we saying that the company's reserves are reasonable, when we realize the reserves are light and the company is in financial danger?

Let me make it clear: I am not talking about being slightly optimistic within a reasonable range of estimates. Nor am I talking about being self-righteous with our managements over reserve deficiencies that may well be a small percentage of surplus. Rather, the issue is clean opinions on reserves that are significantly short—clean opinions where the opining actuary knows better.

Let's not take this subject lightly. Some will say that the light loss reserves did not cause insolvencies. I agree. However, they may well have caused the insolvencies to be recognized too late, when the impact was much greater. How many claimants aren't being reimbursed for their adverse events because guaranty funds don't cover some claims? How many claimants are underreimbursed or reimbursed too late for serious injuries because their claims are in the guaranty funds? How many individuals and companies in the United States are paying additional assessments to finance the large insolvencies that could have been mitigated if our profession had warned regulators of impending insolvencies?

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Robert Wilcox writes in his article about the various public actuaries serve and the impact that our litigious society has on the profession. However, how many times are we afraid of litigation from our own peers and members (rather than others), and we avoid the tough and necessary discipline decisions? Often, all that the public we serve are asking for is the truth as we see it. Does fear of litigation have to muzzle proper enforcement of actuarial standards?

Finally, I would be remiss to not talk about Richard Foster. Mr. Foster is a courageous actuary who has persisted in taking a stand and doing what is right. He has continued to work to improve the system so that we can provide the truth to all our publics. We as actuaries need to, through our professional so-

cieties, support that effort. We need to show that we will not have, as our ethical standards, provisions that allow employers to muzzle us. Is it really more important for the profession to lobby for the extension of the Terrorism Risk Insurance Act (TRIA) than to spend those same resources working with Congress to ensure that in the future no employer (even the federal government) can muzzle an actuary from expressing his professional opinion?

In conclusion, we as a profession have a great challenge and opportunity ahead of us. I believe we can meet that challenge. I also believe we have the courage to meet the challenge and be the public servants we were meant to be.

WILLIAM J. VONSEGGERN
NOVATO, CALIF.

Several Modest Proposals

I read Jeff Petertil's and David Shea's responses ("Presidential Candidates Offer Their Prescriptions for What Ails America's Health Care System," November/December 2004) with interest.

I have to think that health care actuaries have already given thought to many alternatives to reducing health care utilization and costs and so my ideas won't be novel, but I'm curious as to the downsides of my approach, which I now outline:


1) Higher deductibles and co-pay provisions in private and public health care programs;

2) Both private and public programs start to focus on obesity by making the insured's co-pay percentage a formula positively correlated to the ratio of a person's body fat to total mass. (Is there a way to identify people genetically predisposed to obesity?)

3) Public health care benefits available to society after retirement would be denied to persons (a) who after the age of 21 have been convicted (twice?) of selling illegal drugs (other than marijuana) and (b) who used tobacco after age 50. (Here, only lung/throat cancer diagnosis/treatment would be denied.)

I ask whether there is a test for genetic predisposition for obesity so such people would be assigned a co-pay percentage in the middle of the range. I realize the comment could be interpreted to mean that genetically predisposed people would be targeted for the high end, and that goes against the "voluntary choice/behavior" aspect of my scheme. As I see it, such a plan not only tackles health care expenditures but also gets people to focus on their health by making them pay a monetary penalty for not doing so. Now that President Bush has won re-election, perhaps politically he can afford a bold initiative that would have him remembered as also getting people to focus more on their health.

Now that you've had a moment to laugh at the dozens of personal liberty provisions this plan might violate, can



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anyone tell me in a just a few lines how realistic or unrealistic this plan is and whether health actuaries think it would reduce not only the public burden but also health care usage? (I am a P/C actuary with some A&H experience, the latter outside the United States.)

STEVEN A. GAPP
SINGAPORE

Jeffrey Petertil responds: Mr. Gapp does laugh at himself, but I think his views, as those of most people who wonder about high health care costs and have an idea about how to solve them, do deserve at least a moment of seriousness.

Most people do not want to spend money on health care, and they resent when they must do so.

Mr. Gapp puts forth three proposals: higher deductibles, focus on obesity, and exclusion of payment for those who smoke or sell illegal drugs. In the article, I agreed with higher deductibles but doubted they would make a serious dent in the level of increase in the long term.

While there are undoubtedly higher costs associated with an obese population than a trimmer group, Mr. Gapp's one-sentence solution also contains the problem. How do policy-makers identify such people and differentiate those who will not do something about it from those who cannot? Even in Singapore, that can't be easy.

His final proposal about excluding payment for small subsections of the population is more punitive than it is concerned about health care costs. Even if it were not, it raises the question of singling out certain people for exclusion.

I also received a letter from a retired FSA who seems to have worked mainly in the life insurance arena. He commented

that health insurance was relatively rare for much of his career (I infer he is now near 90 years old) and he did not draw benefits very often. He notes that Americans medicate themselves much more today than previously, partially in response to drug advertising.

I certainly agree, and that has added to health care costs, but we also see less inpatient care than we did 20 or 30 years ago, so it's hard to say the cost is extraneous.

He also notes that his anesthesiologist grandson is paying more than \$100,000 a year in malpractice insurance premiums. In the *Contingencies* article, I noted

that both presidential candidates wanted medical malpractice reforms but that this also will not reduce costs much. Anesthesiologists have among the highest malpractice insurance costs, but that's because they work in a risky area and need high standards. I'll leave it to other actuaries to justify liability insurance at the current level, but people do need some sense that justice is possible, in health care as in all aspects of life, and thus we have tort law.

For all these ideas, in short, it's easy to make proposals, harder to take the time to gather the evidence—actuarial and otherwise—to state why each proposal won't make much difference, even if workable. I don't have that time. I'm not sure taking this on in the Letters column of *Contingencies* is useful to more than a handful of readers. I ended my interview with a statement about the basic problem, and David also made his statement.

I also received an e-mail from an actuarial acquaintance who included the fol-

lowing: "Interesting, and truly objective and nonpartisan. Any partisan preferences you might have do not show through in your writing. The same is true for the other actuary [David Shea]. Too often (e.g., *New York Times*, CBS, ABC, NBC news) writers claim to be nonpartisan when they are in fact actively working for one side."

Besides this showing the writer's own political tendencies, I take it he doesn't read *Contingencies* often, since the partisan rarely shows through—although it does occasionally, as might be expected in these rancorous times.

At some relatively conscious level, most people do not want to spend money on health care, and they resent when they must do so, either directly or indirectly. Meanwhile, they spend money on all kinds of other, dumber things, which the society promotes through direct advertising or other pressures. This contrast is curious and yet probably explained by the human tendency to

I'll let each person fill in the sentence as they would like.

JEFFREY PETERIL
OAK PARK, ILL.

CORRECTION

The chess puzzle printed in the January/February issue was incorrect and therefore unsolvable. Here is the correct puzzle. White to move and mate in three.

