

Schreiner Response

Editor's note: In the September/October issue, William Schreiner wrote a letter (Page 6) complaining that the ABCD is too lenient when it comes to investigating and punishing actuarial misconduct. Here is the ABCD's response to that letter.

The ABCD Bylaws and Rules of Procedure preclude me from discussing the specifics of particular cases. However, I can describe the ABCD process. While it may not change Mr. Schreiner's obvious dissatisfaction with the outcome of that process, it should make clear that the ABCD takes all complaints seriously.

The Critical Review of the U.S. Actuarial Profession (CRUSAP) Task Force recently issued its report. A quote from that report makes this point: "The CRUSAP Task Force also generally supports a bias toward counseling and private reprimands as preferable to public discipline unless there is strong evidence to the contrary—an opinion that appears to be shared by the ABCD."

A complaint may be disposed of at three points in the process, depending on the facts and circumstances. Some complaints are dismissed without an investigation, others are disposed of following an investigation but without a hearing, and the rest are disposed of after a hearing in front of the full ABCD. After the ABCD receives a complaint, the complaint is sent to the actuary named in the complaint, and the actuary is asked to provide sufficient information to allow evaluation of the seriousness and/or validity of the complaint.

After the actuary's response is received, the complaint and response are evaluated by the chair and the two vice-chairs of the ABCD to determine whether they believe there is a possible material violation of the Code to warrant an investigation. Often the actuary demonstrates that there was not a material violation of the Code. In that case, the chair and vice-chairs, after deliberation, will decide to dismiss the complaint.

If there appears to be a possible mate-



rial violation of the Code, the chair and the two vice-chairs will appoint an investigator. The investigator's role is to determine the facts of the situation. The investigator collects additional information from the complainant, the actuary, and other parties involved and prepares a report summarizing the findings of the investigation. The actuary is then given the opportunity to respond to the investigator's report, challenge any of the findings, and provide additional information in support of his or her position.

At this point, the entire ABCD reviews all the documents and information that have been developed to determine whether it appears that a possible material violation of the Code has occurred. In some instances, it may ask the investigator for additional information before making a decision. If the ABCD determines that the evidence does not indicate a possible material violation of the Code, it will vote to dismiss the complaint.

If there appears to be a possible material violation of the Code, the ABCD will vote to schedule a fact-finding hearing at which the investigator and the actuary will appear. The actuary is afforded an opportunity to question the investigator and to present evidence and witnesses. After the hearing, the ABCD, after due deliberation, decides whether a recommendation for discipline is warranted.

The ABCD process, conducted in confidence, provides the ABCD, through its investigator and the hearing, with access to the facts of the situation. It also provides the actuary against whom a complaint has been filed with several opportunities to tell his or her side of the story and present as much information (including statements

from witnesses, if appropriate) as is necessary for the ABCD to make an informed decision. The ABCD Rules of Procedure are available on the ABCD website at www.abcdboard.org.

A complainant may not agree with an ABCD decision, but because of the confidential nature of the ABCD procedure, the complainant does not have access to all the information available to the ABCD. Another quote from the CRUSAP report is relevant here: "Given that most ABCD complaints are resolved without public discipline, it is unlikely that sufficient transparency can ever be provided to satisfy observers regarding the effectiveness of the profession's disciplinary processes. As described earlier, the final decision regarding discipline is made by the separate membership organizations."

Mr. Schreiner's letter states, "You will recall that the recent CRUSAP report recommended the introduction of individuals from outside the profession to participate in the ABCD process." In fact, the CRUSAP report did not make such a recommendation. The report recommended further study of the issue. The report stated: "The CRUSAP Task Force considered whether including non-actuaries in the disciplinary process might improve its credibility. ... In view of the many comments we received on this recommendation in the draft CRUSAP report, however, we are also convinced this issue merits further study."

In summary, the ABCD is very serious about its deliberations regarding all cases it considers and believes that the resolution of its cases to date has resulted in an appropriate balance between dismissal, recommending that disciplinary action be taken against actuaries who truly deserve it, and encouraging actuaries to engage in appropriate practices without unduly penalizing them for minor mistakes and/or oversights.

A final quote from the CRUSAP report: "The CRUSAP Task Force does not view these statistics as necessarily indicating a weak disciplinary process."

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Triumph of Opinion

I enjoyed the article "The Triumph of Data" in the July/August issue of *Contingencies*, except for two words. Near the bottom of Page 29, the author adds "(Think Iraq)" when discussing instances where "those in power clung to conclusions in the face of nullifying facts and took actions leading toward catastrophe." I find it odd that an article lauding scientific exploits and objective research would include such a subjective aside. Whether one or all of our members hold the same political view, it seems misplaced in a magazine "that explores the issues driving the insurance and financial services industries."

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Plan Efficiency

Mr. DeStefano's excellent article "How Efficient Are Retirement Programs

in Delivering Dollars to Retirees?" (September/October 2007) compared the relative efficiency of defined contribution (DC) and defined benefit (DB) plans during the accumulation phase. He identified two primary sources of inefficiency in DC plans; plan design and typical investment performance of individual accounts. However, DC plans have another source of inefficiency when compared to DB plans. This third source of DC plan inefficiency occurs during the payout phase.

A DB plan, by its nature, is perfectly efficient at providing monthly income. That is, a DB plan always pays the same monthly benefit while the retiree is alive and then stops at death—not one month too soon and not one month too late. A DC plan, on the other hand, isn't as efficient during the payout phase as a DB plan. Despite a retiree's best planning and execution, it's very likely

that DC money will remain in the account if the retiree dies earlier than expected. Conversely, a retiree will deplete the account, assuming a constant monthly benefit, if the retiree lives too long, even if the investment assumption is exactly realized.

I measured a DC plan's inefficiency using a client's plan population in 1996, and *Contingencies* was kind enough to publish that article ("Goldilocks at Retirement," September/October 1996, Page 16). It demonstrated that the present value of money left to a participant's heirs in a DC plan was about 12 percent of the beginning balance of the aggregate value of all individual accounts, based on a then-current mortality table. Modern mortality tables would decrease this inefficiency, albeit probably by only a modest amount.

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