

PROMOTING PRACTICAL RESEARCH

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It has taken years for me to realize that practical actuarial research has been lacking in areas where, instituted early, it could have had great significance. Possibly some of this research really had been done, but if so, members of the profession have not known about it. The purpose of my paper is to urge remedial action.

Steps taken by the U.S. National Institutes of Health (NIH) were the trigger to arouse my interest. Its researchers have directed the natures of various studies and the results have been fruitful. But mostly it has been in the fields of bugs and drugs. Suddenly their attention was directed to the lack of research where there were many afflicted and few cures. In particular, backaches have been a headache to physicians, because so little is known about cause and cure, yet the sufferers number in the millions. The news item announced the start of backache research.

Even as this is written, news from England states that their research efforts have been guided by individual departments of the government rather than in the national interest, and something is to be done about it.

Catastrophic health costs is an area that needed research. This was known back in the 1930's when Blue Cross began. At that time a prominent actuary observed that the benefit was mostly budgeting, at a cost, with the insurance really being against multiple claims and not for single catastrophic situations. Practical actuarial research on catastrophic coverage over fifty years might well have shaped the form of development in a different direction from what we have today, when the problem still lacks a solution and is only now being recognized as requiring a governmental or private solution.

Allied to this, yet different, is the Continuing Care Retirement Communities situation. Some of these, or similar facilities, have failed, with disastrous consequences to the aged. Here is what Barbara J. Lautzenheiser, a Past President of the Society of Actuaries, said about this topic:

The first time I grew concerned about this subject was during my time as Chief Actuary at the Bankers of Nebraska, and one of these communities was beginning in Lincoln, Nebraska. That was about 15 years ago and we paid absolutely no attention to it. My concern is that we do not pay attention to these things in the beginning, but then put up a fight after having three strikes against us. I think we ought to look around and find more of these issues to become involved in now.

A few years ago the U. S. Supreme Court allowed individual annuities to be sold with female rates higher than male rates. This was opposed in a brief filed by a small number of actuaries. They contended that insurers had encountered few problems in adopting rates that did not vary by race. This was true, but not a completely comparable situation. The Supreme Court case had been a long time in preparation, so research could have been undertaken on this particular point. It may be noted here that insurers probably were not anxious to argue the lack of comparability, but might not have objected if others had done the research and disclosed all the facts. It should not be assumed, in instances of this sort, that actuaries who write about matters pertaining to their employer care to discuss every aspect of a situation, when it might be used to reflect on the employer. It is one thing for an account to say "research has shown" and quite another for the message to be "even the actuaries for the insurer admit".

The same Supreme Court decision decreed that discrimination between males and females would be measured by the amount of periodic benefit, and not by the employer's cost. I wonder if research into the question might not have led to some way, such as age and service credit adjustments, whereby an employer would have attempted to have both equal cost and equal benefits. It is undoubtedly too late now for such an attempt to be made without provoking unjustifiable legal costs.

I speak with hesitancy about casualty insurance matters, but that portion of our industry is blamed for high premiums resulting from enormous claims. Undoubtedly the industry studied the situation as it developed, but any results that came out would have borne the label of being self-serving. Independent research might avoid that sort of label.

In the United States the history of pension legislation suggests a lack of independent actuarial research. Almost 20 years ago a hue and cry arose when the bankruptcy of a large employer left a legacy of inadequately funded pension benefits. Excessively complex legislation and regulation was then put in place. It strains credulity to realize that the same situation arose again for a major employer just recently. The major difference this time is that a governmental organization insures the benefits, but is now in financial difficulty itself.

What brought this situation about is really fairly simple. The employer is losing money, so he pays no income tax. He ceases pension contributions since there is no tax offset. He and the union realize he cannot afford wage increases, so pension benefits are increased, particularly because a business losing money cannot afford a strike. On the day of reckoning, the latest pension increases have decreased the pension assets and the latest pension increases in future benefits are not secondary to the former ones that might well have been close to being adequately funded. Surely adequate independent practical actuarial research could have promoted legislation years ago to

solve the problem, or at least show that the legislation enacted did not reach its goal.

While selection of a goal is a part of practical research, it does not go far enough. The pension legislation discussed above is an example. The laws and regulations enacted were assumed to be complex enough to fit the need. Entirely overlooked was that the enactment immediately set off a substantial termination of small pension plans by employers daunted by the costs of compliance. Should that not have been obvious and so proclaimed by practical actuarial research?

A further example of practicality arose under the U. S. Medicare law. This imposed a substantial deductible. As a cost control measure it was sound in theory, but in practice largely ineffectual. No sooner had the law passed than commercial insurance policies, both group and individual, came onto the market with the prominent feature being payment of the Medicare deductible. Again, this should have been foreseen had independent practical actuarial research been activated.

Some practical actuarial problems involve interaction with other professionals. We would hope that our profession has the breadth to understand their difficulties and promote an appropriate actuarial response. This seems not to have occurred recently when the accounting profession adopted certain actuarial standards on their own, suggesting more knowledge of our profession than we of theirs. Since there seems to be agreement with their actuarial choice, it appears that our profession was laggard in not proclaiming it first. I think this is an example of lack of impartial research.

I do not doubt that this recital of the results of inadequate research could be greatly expanded, but perhaps what has been cited furnishes a basis for seeking a remedy. I see an effective remedy taking several steps.

The first step is identifying those issues where actuarial research may provide guidance. Perhaps, after an initial surge, new issues would be added slowly, say one a year. Actuaries would be invited to make suggestions and these would be screened to pick out the most worthy.

The second step is obviously to find the persons capable and interested to do the needed work. Periodic reports would be in order so that progress could be measured and projects terminated appropriately.

The third stage, somewhat intermingled with the second, would be arranging the discussion of both progress reports and final reports on the research. To some extent arranging the printing of written discussions would serve a purpose, but it may be that meetings providing for discussion would encourage more persons to state their views.

Publication of research results is the last stage. Just to have them appear in print may not be enough. Publicity itself may be available through professionals in that field already employed by actuarial organizations, but recognition of the researcher should not be overlooked. This recognition might well include appreciation of those who contributed either directly or by their discussions.

In conclusion, I believe there is a need for practical actuarial research directed to selected ends. I hope this message will reach those who guide the functions of the Actuarial Educational and Research Foundation - and be acted upon.