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A CENTURY AND A HALF, RESPECTIVELY, OF

CASUALTY AND CONSULTING ACTUARIAL WORK

A RETROSPECTIVE AND CRITIQUE DEVELOPED AND PRESENTED BY

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 CASUALTY ACTUARIES

A century ago there were few if any casualty actuaries in the US (or elsewhere, for that matter). There were, however, a small number of statisticians who worked on the new social insurance line, workers compensation, which had burst on the national scene starting in 1911. One of those statisticians, Dr. Isaac M. Rubinow, chief statistician for the Ocean Accident and Guarantee Corporation and a man of many talents, joined with a few of his peers in offering free membership in a new organization for casualty actuaries – and statisticians. The Casualty Actuarial and Statistical Society of America was formed in 1914 with 97 charter members. Today’s Casualty Actuarial Society (the statisticians and reference to America were soon dropped) has about 5500 members, which bears witness to the success of the work of those pioneer casualty actuaries – and statisticians.

Isaac Rubinow was not long with us actuaries. An emigrant from Moscow to New York as a teenager, he became not only a statistician, but also an economist and a medical doctor. After only a few years in the insurance business, he continued westward to California to take a job heading the Commission on Social Insurance of the American Medical Association. When the AMA cut off funding to the Commission, Rubinow moved to Palestine to head the American Zionist Medical Unit. In 1929 he returned to the US and moved to Ohio to head the Independent Order of B’nai B’rith, a position he held until his death in 1936.

Isaac Rubinow’s passion was social insurance. He was a founding member of the Socialist Party of America, and several times ran for Congress on a socialist ticket. In 1912 he helped develop the social insurance plank of Theodore Roosevelt’s Progressive Party platform, and the following year he published the definitive book on the subject, “Social Insurance, with Special Reference to American Conditions”. In 1934 he published his second major book on social insurance, and received a copy signed by Franklin Roosevelt, who explained “this reversal of the usual process, in view of the great interest I have had in reading your book”. In spite of these encouraging bookends, he was discouraged by the failure of his adopted country to embrace social insurance beyond workers compensation during most of his lifetime and, when the New Deal began taking shape, by the fact that its architects called on him very little, if at all. He did remain active in the field as, for example, when in the early 1930’s he became chief actuary and chairman of the Committee on Research of the Ohio Commission on Unemployment.

Rubinow also became disillusioned with the Russian Revolution, and increasingly with Karl Marx, and he always valued social insurance over socialism, and science over politics. He also did not disagree with James Craig, his successor as CAS President, who said that “we must ensure that social insurance programs are properly financed.” He died a year after enactment of the Social Security Act, encouraged that America was once again on the move with regard to social insurance, but unaware that future politicians would turn his compassionate programs into an actuarial ruin.

CASUALTY CONSULTANTS

A half-century ago there were hundreds of US actuaries who made their living as consultants, but no more than a handful of these were casualty actuaries. In that year of 1964, however, a life and pension consulting actuary left the brokerage firm at which he was employed to join Milliman & Robertson, a consulting actuarial firm. Frederick W. Kilbourne, a man of a few talents but especially skilled at self-promotion concealed as self-parody, soon found himself to be a partner without portfolio among a dozen peers who were also his main competitors. With considerable if exclusive encouragement from Wendell Milliman, Fred launched a career as a casualty consulting actuary, gathering numerous clients and a score or so of other casualty actuaries as time passed. Among that score or so were some, such as Jim McGinnitie and Jim Berquist, who went on to develop substantial casualty actuarial practices themselves. The number of consultants in the CAS has grown apace, from a handful in 1964 to nearly 1000 today.

Fred Kilbourne has been with us seemingly forever as an actuary. An emigrant at age 20 from Massachusetts to California to attend UCLA, he became a member of all the actuarial organizations within his purview, and served terms as President of the Casualty Actuarial Society and of the Conference of Consulting Actuaries. He established a casualty actuarial division at the aforesaid consulting actuarial firm, an actuarial division at a management consulting firm, and an insurance actuarial division at a (different) brokerage firm – in all cases proving himself to be more skilled at starting something than at keeping it going. Chafing at the 80-year longevity limit mentioned in the Psalm, Fred later this year will enter his ninth decade of life, most of which has been spent working as a consulting actuary.

Fred Kilbourne’s passion has been and remains social insurance financing. He has never registered with any political party, but he did attend the 1988 presidential convention of the Libertarian Party. He was a founding member of the National Academy of Social Insurance and of the Section on Social Insurance and Public Finance of the Society of Actuaries. Apart from workers compensation, however, his paying work in the social insurance field has been limited to several years in the early 1980’s during which he was consulting actuary for unemployment compensation for the California Employment Development Department and for the Ohio Bureau of Employment Services.

Fred has attempted to slake his passion (for social insurance financing, recall) by means of publications and presentations on the subject, over many years. The first of these was a 1964 letter to the editor of the Los Angeles Times, in which he referred to Social Security as a pyramid club, and to the incipient Medicare bill as bringing a trillion-dollar debt. His 1983 CAS presidential address, “Social Insurance and the Casualty Actuary”, stated that “The resolution of our social insurance problems, for better or worse, will play a major role in determining the quality of life in the 21st Century”, and his 2006 CCA presidential address struck much the same theme. His 2012 presentation at a conference of the International Association of Consulting Actuaries put forth his belief that, whereas the predominant legacy of the first three generations of US politicians was *freedom,* that of the most recent three generations has been *debt.* He has become discouraged that these and his other publications and presentations have had no discernible effect on the country’s social insurance financing problems, which continue their rush toward the precipice.

SOCIAL INSURANCE

Article II of the original CAS constitution (adopted February 19, 1915) states that “The object of the Society shall be the promotion of actuarial and statistical science as applied to casualty *and social insurance* by means of personal intercourse, the presentation and discussion of appropriate papers, the collection of a library and such other means as may be found desirable. The Society shall take no partisan attitude, by resolution or otherwise, upon any question relating to casualty *or social* *insurance.*” (emphases added). This Article remained unchanged for 35 years until it was amended (on November 17, 1950) solely by changing “casualty and social insurance” to “insurance, other than life insurance”, and “casualty or social insurance” to “insurance”.

Founder Isaac Rubinow did not live to see his CAS drop social insurance from its agenda without so much as a fare thee well, but we can be sure that he would have been sorely disappointed. In his first (of four!) presidential addresses, he congratulated the “independent” Committee on Constitution for specifically including both casualty and social insurance in the purpose of the Society. In his fourth address, he ventured to prophesy that “during the next decade or so, the development of sickness, invalidity, old age, unemployment and survivors’ insurance will swell the membership of our Society beyond the wildest dreams [of its founders, until the CAS] will gain for itself a very prominent position indeed, not only in the hierarchy of purely scientific organizations, but even more important as an institution which can and will apply the scientific methods of mathematics and statistics to the elimination of grave social ills, and to the betterment of the world we live in”.

The Casualty Actuarial Society nonetheless excised social insurance (apart from workers compensation) from its field of interest, abruptly with regard to its mission statement and gradually, though no less completely, with regard to its agenda. One measure of this turning away can be seen in the number of social insurance papers (including unemployment and other social insurance lines beyond workers compensation) that were published in the Proceedings (and, more recently, in Variance). In the first quarter-century of the CAS there were thirty such papers (plus 63 book reviews), and in the second quarter-century there were four (plus eight book reviews). In the most-recent half-century of the CAS there have been just two such papers (and no book reviews). These two are discussed below.

The more recent of the two social insurance papers of the third quarter-century of the CAS (there have been none in the fourth) was my 1983 presidential address referred to above, the focus of which was on social insurance financing. The other was Jim Hickman’s 1968 paper “Funding Theories of Social Insurance”, which was reviewed by Bob Myers, the most prominent Social Security actuary from inception of the program until his death in 2010, and by Paul Singer, a casualty actuary and member of the short-lived (1965-67) CAS Committee on Social Insurance.

Over the first century of the CAS, on the other hand, lower-case society has moved fitfully but decisively into social insurance. These moves were into workers compensation (1911), unemployment compensation and pensions (1935), health insurance for seniors (1965), and health insurance for all (2010). The merits of social insurance can be debated by persons of good will using both reason and compassion, but the demerits of intentional underfunding of social insurance programs for political gain are beyond serious debate on either count.

OUR PAST

Rubinow anticipated that the Society he had founded would come to play a major role in the development and expansion of new and existing lines of casualty and social insurance. Some of the papers in the early Proceedings bear witness to a degree of realization of that anticipation. Such casualty insurance papers included “Accident and Health Insurance from an Actuarial Viewpoint” and “Effects of Inflation on the Business of Insurance”. Corresponding social insurance papers included “Social Insurance and the Constitution” and “Employment and Unemployment”. Papers that addressed both casualty and social insurance included “Social and Economic Factors Relating to Casualty Insurance” and “Some Aspects of the Compulsory Automobile Insurance Movement”. Some of the early exam questions also indicated that Rubinow’s anticipation was shared by at least some in the CAS hierarchy. One such exam question reads “A bill is pending, providing for compulsory health insurance for all employees earning less than $100 per month and providing for an equal division of cost between employee and employer. Comment on the constitutionality and practicality of such a law. How would you proceed to estimate its total annual cost”? Another asks the applicant to “Describe an existing system of unemployment insurance. Give the principal arguments for and against an old age pension scheme with a government contribution. What is the modern conception of the government’s obligation to a crippled soldier, and what is being done in this regard in some of the belligerent countries”? Finally, one exam question asks the applicant simply to “Present in broad outline a social program to meet the minimum needs of the average man and discuss the probable effect of such a program on the economic structure of this country”.

It is understandable that casualty (and other) actuaries followed the money into casualty (and other) private insurance, rather than into social insurance which at the time offered fewer jobs at lower pay. This applies as well to workers compensation, the original social insurance line and impetus for the formation of the CAS, since more than half of all such coverage in the US has been and still is written by private carriers. But even for workers compensation the fiscal problems that have afflicted *all* social insurance lines have been predominantly in the state-run programs (I once made a presentation, to an audience of state fund executives, entitled “How to Get Rid of a Billion-Dollar Deficit”).

While the abandonment of social insurance by casualty actuaries was certainly not the proximate cause of profligate spending by government on social insurance programs, it is true that this and other antisocial behavior is often characteristic of abandoned children. In addition to the terrible price to be paid by all of society, however, casualty (and other) actuaries have been paying a nonfinancial price of our own. As government has expanded ten-fold (relative to GDP) over the past century, so have government regulations and attendant compliance work. Along the way, actuaries have become less and less designers and analysts of financial security programs and more and more mere and mundane agents of government.

Shortly after World War II, Jack Smick published in the Proceedings a paper entitled “The Actuary as a Consultant”. His article included more than a score of case studies reflective of his work as one of the earliest casualty actuarial consultants. More than half of the cases in his sample involved workers compensation, but the other lines he addressed included life and health insurance and social security. While most of the projects concerned conventional actuarial work addressing rates and reserves, some involved expert testimony and the analysis of proposed legislation, and one would best be described as a management consulting assignment. Much of Jack’s work defied description of the actuary as a narrow bean-counter.

My own early work as an actuary also was substantially as a designer and analyst of financial security systems, along with conventional rate and reserve work, with but a modicum of regulatory compliance work. For example, I developed and wrote a major medical plan for a large life insurer, a pension plan for a large manufacturer, a pilot plan of prepaid legal services (with funding from the Ford Foundation), a prepaid vision service plan for an optometric association, a group auto insurance plan for a large casualty insurer, a credit life and disability insurance plan for a large bank, several plain-language policies for a large life insurer, medical malpractice insurance plans for several doctor-owned insurers, and a plan of investment insurance for an entrepreneur. Several of these efforts never got off the ground, of course, but all were interesting to work on and all had the potential of improving the financial security of the public, as well as of my clients and their advisors.

Of particular interest for our purpose are the facts that all of the aforementioned projects took place in the first half of my actuarial career, and that there have been few such jobs in the second half. This naturally raises the question of where *I* went wrong, and I must admit that some of the decline is attributable to my personal failings (see “parody”, above). I submit, however, that much is due to *our* decline as a profession, moving inexorably from being the architects and engineers of financial security systems to being essentially agents of the State, helping to enforce compliance by our employers and clients with government regulations.

The foregoing is not to say that financial security systems should be free from regulation. Such systems should be subject to an optimum degree of government regulation, designed to minimize the chance that they will fail to meet their obligations to their customers and the public. There is little question, however, but that the forces of regulation have blown through optimum in pursuit of maximum. For every regulation that reduces the risk of insolvency there are now a dozen that have no discernible social utility, or worse. Such regulations enhance the financial security only of the regulators (and the power of the politicians who gave them their jobs), and of the professions engaged in compliance work.

This is also not to say that social insurance systems necessarily run counter to the public interest. Such systems have the potential of fostering the community spirit that lies within each of us alongside the entrepreneurial spirit that is the proximate cause of our collective GDP. But that potential can be crippled or worse if social insurance financing is left to politicians rather than to actuaries. This is not a blanket *mea culpa* for my profession, however, for several reasons. First and perhaps foremost, the collective power of actuaries, relative to that of politicians, makes David and Goliath seem like a fair fight. Furthermore, those few actuaries who have made their careers working for social insurance agencies have generally done a fine job, given that they have been greatly hampered by the laws of the land and the standards of their profession. There have also been other actuaries who have done their best to ensure, in the words of James Craig, “that social insurance programs are properly financed.” Prominent among these have been Haeworth Robertson, former Chief Actuary of Social Security, and his protégé Rick Foster, former Chief Actuary of Medicare. These few need help, however, if the sling is to be effective against the giant in order that our social insurance programs, and our children, may thrive, or even merely survive. In the words of the poet:

 Higgledy, piggledy,

 Senator Sinecure

 promises everything

 voters may wish.

But if his programs are

 unactuarial,

 can he provide with

 two loaves and five fish?

OUR FUTURE

The United States is not alone among developed countries in facing a future dominated by actuarial collapse. The actuarial collapse of a structure is more insidious than is collapse that is “sudden and accidental”, to use an erstwhile property insurance term. It’s more akin to termite damage rather than damage from an earthquake or a hurricane. The structure that is our national economy looks fairly strong, but it is riddled with damage from termites, and cannot continue to stand without remediation.

Consider the excess of promises over provision in that national economy. An example of a *promise* is your Social Security pension, against which there is *provision* in the form of future payroll taxes plus a scant and oxymoronic “trust fund” of a few trillion dollars. The present value of the excess of such promises over all corresponding provision, for all current holders of Social Security cards, exceeds the so-called “national debt” of bonds held by fat cats and others at home and abroad. The sum of these two huge shortfalls is, however, greatly exceeded by the unsupported portion of the healthcare financing promises that have been made by the federal government to all Americans. Add to all this debt the unsupported portion of retirement promises that have been made to public employees, the myriad obligations that are backed by the evanescent “full faith and credit of the US government, and other items such as the “forever” postage stamps issued without visible means of support – and you’ve got a lot of debt. So much debt, in fact, that it exceeds five years of gross national product. Actuarial collapse is here, and actual collapse is nigh, unless we can somehow repair the termite damage and stop the chewing.

Before we can even hope to eradicate the termites, however, we must identify them. America was blessed in its early years by three generations of politicians whose predominant legacy was *freedom,* with the Revolutionary and Civil Wars as bookends to the era. The most recent several generations of US politicians, in spite of some positive contributions such as civil rights legislation, have as their predominant legacy a crippling and potentially fatal *debt.* Their monument to themselves is a $100 trillion termite mound of debt that will enslave future generations. A natural question is why these politicians would engage in such egregious acts of fiscal child abuse, effectively selling out their country for the votes of the actuarially ignorant. The answer is their lust for power, an aphrodisiac beside which the love of money is a meager coin. Their claims of noble motives do not stand up to scrutiny. It may be compassionate to help those less able to help themselves by means of taxes that are honestly computed to meet the costs of promised benefits. It is not compassionate to finance public programs by stealth, selling into unsustainable debt those *least* able to help themselves, the children of America, and their children. American born in the 20th Century may perhaps be excused, on the grounds of actuarial ignorance, for the 21st Century damage done by their elected politicians. It’s worth noting, however, that that damage will be sustained primarily by those born in the current century, or in the waning years of the one recently ended. It’s also worthy of note, and in no way coincidental, that these same children have been disenfranchised from matters of grave concern to them, and to their children.

So what, if anything, can we actuaries do to avoid the precipice, or at least to soften the landing once the country has fallen? The excuse of actuarial ignorance is unavailable to us, but it must be admitted that we are outgunned if not outnumbered by those in power. The politicians are still for now beholden to the voters, on the other hand, and it’s at least conceivable that we could pierce or even lift the veil of actuarial ignorance that has enabled the abusers. Our actuarial organizations may be able to do more in this regard. The Casualty Actuarial Society could return to its social insurance roots, and perhaps be joined by its sister organizations in forthrightly addressing the existential actuarial issues facing the country. Our chance of success will be greatly enhanced if individual actuaries as well will take up the cause. It may seem daunting to become a social insurance actuary overnight, but that’s not what is required. You merely need to learn enough about the subject to help educate your actuarially-ignorant neighbor. Remember that your training equips you to fully understand that two plus two will never equal five, waiting and praying notwithstanding, which the majority of voters during my lifetime apparently haven’t understood.

It is possible, of course, that the United States may yet snatch victory from the jaws of self-inflicted actuarial defeat. The future is a willful child, the product of her parents the past and present, but also subject to whim beyond our ken. We actuaries may not be able to solve the existential actuarial problem afflicting our country (and not ours alone), especially at this late date, but perhaps we can help alleviate it, and surely we must try. The children need us.