

## Non-actuarial Services under the Code

THERE ARE NUMEROUS ACTUARIAL STANDARDS OF PRACTICE (ASOPs) containing what seems to be excruciating detail governing the performance of actuarial services under the Code of Professional Conduct. So much detail, in fact, that actuaries not only need to review the particular governing ASOP when beginning a new type of assignment but also several times a year need to revisit the standards that they are familiar with (or think they are—when in doubt, check the Applicability Guidelines!).

The consequences of unwittingly performing actuarial services in a manner that is not in compliance with the standards could be civil damages or, worse, a referral to the ABCD. The reward for relying on a standard is the knowledge that your services were performed in a manner supported by the actuarial profession. You also potentially have averted civil liability and almost certainly have avoided problems with the ABCD.

The preamble to the code defines actuarial services as: “Professional services provided to a Principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.” Non-actuarial services are those that don’t fit within the definition above.

An actuary performing non-actuarial services, however, has no standard to rely upon. This has three implications. First, it means there is no support from the actuarial profession regarding the manner in which the services were performed. Second, it means that the Qualification Standards don’t apply. Third, it means that an actuary must make his or her own decision as to whether he or she is following Precept 1 of the code (to which he or she is still subject).

### Let’s examine Precept 1: **Professional Integrity**

PRECEPT 1. An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession’s responsibility to the public and to uphold the reputation of the actuarial profession.



ANNOTATION 1-1. An Actuary shall perform Actuarial Services with skill and care.

ANNOTATION 1-2. An Actuary shall not provide Actuarial Services for any Principal if the Actuary has reason to believe that such services may be used to

violate or evade the Law or in a manner that would be detrimental to the reputation of the actuarial profession.

ANNOTATION 1-3. An Actuary shall not use a relationship with a third party or with a present or prospective Principal to attempt to obtain illegal or materially improper treatment from one such party on behalf of the other party.

ANNOTATION 1-4. An Actuary shall not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation or commit any act that reflects adversely on the actuarial profession.

Annotations 1-1 and 1-2 clearly don’t apply, as those annotations deal with actuarial service, but the others still apply.

### **Ethical Challenge**

Precept 1 itself presents an ethical challenge. Many of the subject actuaries referred to the ABCD are accused of violating Precept 1. If an actuary steals money from a grocery store, that is clearly a violation of Precept 1. But performing non-actuarial services incompetently also could violate Precept 1.

Suppose that an actuary, for example, provides software support for non-actuarial software. Suppose also that the actuary performs these services incompetently. The actuary could be referred to the ABCD by a disgruntled client. The actuarial profession reserves the right to discipline members

who demonstrate a lack of general honesty, integrity, and competence—certainly with regard to services that potentially reflect adversely on the actuarial profession.

I will note that as far as I’m concerned, Precept 1 doesn’t require that

actuaries be perfect human beings. Many of us aren't competent at plumbing, but a poor rebuild of our own toilet shouldn't bring a referral to the ABCD along with other more obvious problems. Nor does a lack of plumbing knowledge or ability bring discredit to the actuarial profession—although an actuary who performs professional plumbing services in an incompetent manner should think seriously about plumbing classes.

More seriously, Annotation 1-3 absolutely applies to non-actuarial services. If an actuary obtains illegal or materially improper treatment in professional relationships, he or she has demonstrated deficiencies in general honesty and integrity.

I note, again, this doesn't preclude slipping the maitre d' \$20 for a better table, even if the restaurant—or the maitre d'—is a client. Slipping the plumber \$20 not to tell your wife about the poor initial repair also isn't a Precept 1 violation (in my opinion, at least).

Annotation 1-4 may set the highest hurdle among the annotations. Dishonesty, fraud, deceit, or misrepresentation by an actuary in any service relationship certainly can reflect poorly on the actuarial profession and may be subject to discipline. Dishonesty, fraud, deceit, or misrepresentation in one's personal life also can reflect poorly on the actuarial profession and may be subject to discipline. An actuary who knowingly tips the maitre d' or plumber with a counterfeit Andrew Jackson not only might see how fast the Treasury Department provides a vacation behind bars but also might discover his or her actuarial credentials have been stripped.

That said, most unethical behavior falls well short of passing counterfeit money. As I wrote in the November/December 2007 issue of *Contingencies* ("Affordable Virtue: Ethics for Pension Professionals"), "Correct ethical behavior can sometimes be difficult to define precisely."

Is a temporary plumbing fix ethical

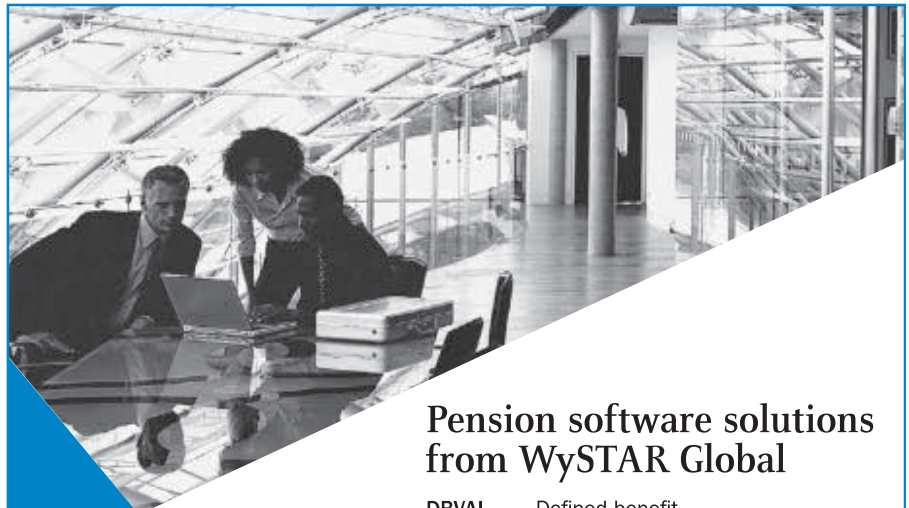
without disclosure that a more permanent fix is needed soon? Plumbers must learn what to tell their customers without the benefit of 44 ASOPs to guide their every act. How do they learn to be moral plumbers in an amoral world?

Plumbers first must learn their profession and ethics from other more experienced plumbers; apprentices learn from masters not only how to do their job but how to be ethical plumbers. The second step is to practice ethics in the course of daily business. To become a habit, moral behavior must be refreshed daily through actions and decisions. The third step is to continue to learn the craft of plumbing—and business ethics—through discussions and other

interactions with peers. It's as natural for good plumbers to bounce ideas off of each other as it is for actuaries.

The conclusion is still the same as always regarding the Code of Conduct: actuaries should perform services in an ethical and competent manner. A necessary corollary is that actuaries who perform non-actuarial services must learn how to perform those non-actuarial services from honorable and ethical practitioners of those services. □

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