MAR 2014

Actuarial UPDATE

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Health Practice Council Hill Visits

Making the Rounds

THERE WERE AS MANY TOPICS discussed as offices visited when members of the Academy's Health Practice Council made their way around Capitol Hill on March 13 and 14 for annual visits with legislative and federal agency staffers. As an increasing number of Affordable Care Act (ACA) provisions have transitioned from proposed legislation to implemented law, congressional and agency offices now are focusing on a host of other issues, from Medicare sustainability to ACA implementation and health care cost growth.

"We were queried on the sustainability of Medicare and how the ACA will affect this program," said Colleen O'Malley Driscoll, newly appointed vice chairperson of the Academy's Joint Committee on Retiree Health. Participating for the first time, Driscoll said that many on Capitol Hill have questions about how increased health insurance availability to pre-65 retirees through the ACA could affect Medicare costs in the long run.

"It was apparent that the actuarial skill set is very much needed and valued," Driscoll said.

SEE **HILL VISITS,** PAGE 9

From left, Laurel Kastrup, Cori Uccello, David Shea, Audrey Halvorson, and Colleen Driscoll before a meeting at the Treasury Department.

Academy Speaks for the Profession at Spring NAIC Meeting

ENSHRINED in the Academy's mission statement is the statement that the Academy is the public policy and professionalism voice of the U.S. actuarial profession. Nowhere did these words ring truer than at the National Association of Insurance Commissioners' (NAIC) spring 2014 meeting, held March 29-April 1 in Orlando.

From the kickoff through the final session, Academy representatives engaged state insurance regulators in dialogue about key public policy and professionalism issues. The dialogue ranged from headline-grabbing issues, like implementation of the Affordable Care Act (ACA) and principle-based reserving (PBR), to the proposal to redefine "qualified actuary" for signers of actuarial reserve opinions that are provided to regulators.

One of the most notable dialogues took place at the Life Actuarial Task Force (LATF) meeting on March 28. Academy President-Elect Mary D. Miller, Committee on Qualifications (COQ) Chairperson John Morris, and other Academy representatives responded to a first-of-its-kind direct charge from LATF for assistance in determining whether PBR implementation will require specific new actuarial certifications and continuing education (CE) requirements. All agreed that as the COQ further contemplates its charge, involvement between representatives of the COQ and LATF is needed. Miller noted that the Life Practice Council is planning, through a series of webinars, to provide regulators with education and training on PBR. Morris reported that the COQ and the Life Practice Council plan to publish a paper that will lay out current qualification standards and CE requirements related to PBR. Designed to assist actuaries in understanding the qualification requirements necessary to implement PBR, the paper will include a list of topics that actuaries performing PBR-related work should review in order to get up to speed on PBR as its implementation rolls out. Morris noted, "There are multiple requirements already in place that cover PBR, when it is finally adopted."

SEE **NAIC,** PAGE 11

APRIL

7 Capitol Hill briefing: Examining the Health Care Equation—Models of Care Delivery, Washington

23 Meet the Experts webinar, Disability Insurance Trust Fund: Behind the Numbers With SSA's Chief Actuary

28 Retirement for the AGES: Building Enduring Retirement-Income Systems policy forum, Washington

MAY

1-2 Academy Board of Directors meeting, Washington

15-17 NAAC Meeting, Quebec, Canada

JULY

10-13 NCOIL summer meeting, Boston

14 Academy Summer Summit, Washington

AUGUST

7 Executive Committee meeting, Washington

16-19 NAIC summer meeting, Louisville, Ky.

SEPTEMBER

15–16 Casualty Loss Reserve Seminar, San Diego

OCTOBER

7-8 Academy Board of Directors meeting, Washington

NOVEMBER

10-13 2014 Life and Health Qualifications Seminar, Arlington, Va.

13-14 Academy annual meeting, Washington

16-20 NAIC fall meeting, Washington

20-23 NCOIL annual meeting, San Francisco

To continue receiving the *Update* and other Academy publications on time, remember to make sure the Academy has your correct contact information. Academy members can update their member profile at the member log-in page on the Academy website.

Academy NEWS Briefs

"Essential Elements" Collection Grows

THE ACADEMY HAS ADDED two more papers to its growing library of "Essential Elements" public policy papers, on principle-based reserving and on the National Flood Insurance Program. Designed to provide a quick, understandable overview of key policy issues of interest to Academy members, policymakers, and the general public, the papers are available on the Academy's website.

The first two papers in the series, published in February, were on long-term care and raising Social Security's retirement age. Over the coming year, the Academy will add to the series with papers on topics in all areas of actuarial practice.

Future topics in the series are expected to include:

- Medicare solvency;
- The Terrorism Risk Insurance Program;
- The 80 percent pension funding myth;
- Medicare's fee-for-service system;
- Means testing for Social Security beneficiaries.

Last Chance to Complete Volunteer Attestation

PLEASE ACT NOW to keep your seat on an Academy council, committee, task force, or work group by signing the annual conflict of interest (COI) acknowledgment and continuing education (CE) attestation. Required of every volunteer, these acknowledgments are a vital element in the Academy's ability to maintain its standards in providing unbiased, reliable information for policymakers and others who need actuarial insight to inform their decisions regarding U.S. fiscal and societal challenges.

Compliance is required of all Academy volunteers. Those who don't submit their COI acknowledgements and CE attestations will be unable to continue participating in Academy work.

Action Steps Required Now

1. Log in to the Academy membership page.
2. Once logged in, click on the **COI and CE acknowledgment** link in the right column to access the acknowledgment page.
3. Read and sign the document by clicking on the check boxes for each question.
4. Click just once on the **Submit acknowledgment for both** to submit your response.

For more information about the Academy's commitment to professional objectivity, please visit the Professional Objectivity at the Academy page. Questions? Contact the Academy's professionalism department at objectivity@actuary.org. If you experience any technical difficulties, please contact the Academy's membership department at membership@actuary.org or by calling (202) 223-8196.

Now Accepting Nominations for Academy Regular Directors

ACADEMY MEMBERS are invited to nominate themselves or others for consideration as a candidate to be a regular director on the Academy's board of directors. Simply submit your nomination to the Academy's Nominating Committee.

The Nominating Committee may also be reaching out directly to members and asking them to seek election to the board as a regular director. Anyone who would like to be considered for a regular director position is encouraged to let the Nominating Committee know by completing an online form.

Nominating Committee guidelines suggest that practice area representation across the entire board be considered when nominating regular directors. As officer candidates are identified, the Nominating Committee will announce the practice areas it expects regular director nominees to represent.

Chaired by 2012 Academy President Dave Sandberg, the Nominating Committee includes President Tom Terry, Immediate Past President Cecil Bykerk, and President-Elect Mary D. Miller. Other members are Albert Beer, Katherine Campbell, Audrey Halvorson, and Catherine Murphy-Barron.

Avoid the Late Fee—Renew Now

ARE YOU MAKING THE MOST of your Academy membership? Be sure to pay your dues by May 1. Payments made after that date will be charged a 20 percent late fee. While online, take a moment to check out two Academy perks: archived Academy Alerts and professionalism webinars. Alerts keep you in the know about key legislative and regulatory developments as they happen. And even if you missed them the first time, you may still gain continuing education credits by tuning in to archived versions of the Academy's popular professionalism webinars. Learn more and update your member profile by logging in.

IN THE NEWS

An Academy news release responding to public criticism of the actuarial profession by Republican National Committee Chairman Reince Priebus was reported by Politico Pulse, *The Hill*, and *Life & Health Advisor*.

A *USA Today* article cites Academy analysis on funding for the National Flood Insurance Program.

The Academy's Feb. 28 letter to the Internal Revenue Service regarding nondiscrimination relief for closed defined benefit plans was cited in a Bloomberg BNA article.

The Academy's new public policy research partnership with the Health Care Cost Institute was highlighted by iStockAnalyst, The Street, and the University of Pennsylvania Leonard Davis Institute of Health Economics blog.

Written testimony by Academy Senior Pension Fellow Don Fuerst for a U.S. Senate Committee on Banking, Housing, and Urban Affairs subcommittee hearing on the state of U.S. retirement security, was posted in BenefitsLink Retirement Plans Newsletter. Additionally, Fuerst provided perspective on public pension plan calculation methods in a story published in HispanicBusiness.com.

Academy Senior Health Fellow Cori Uccello's written testimony for a U.S. House Committee on Oversight and Government Reform hearing regarding the Affordable Care Act's (ACA) risk corridor program was covered by *Insurance & Financial Advisor* and Pharmacy Choice. Additionally, Uccello's participation in a discussion of the enrollment rate of young adults in health insurance marketplace plans was reported in a law firm's news item about the meeting.

An Academy issue brief on principles for properly funding public-sector pension plans was reported in BenefitsPro, *Governing*, Mondaq, and a law firm's newsletter.

The announcement of the Academy's "Essential Elements" series was covered by *Life & Health Advisor* and reprinted by BenefitsLink and InsuranceNewsNet.

The Academy's Nov. 5 letter to Congress warning about the consequences of eliminating the ACA's individual mandate or extending the open enrollment period was cited in the Center on Budget and Policy Priorities' "Off the Charts" blog.

The Academy's monograph on Social Security reform options was posted in BenefitsLink Retirement Plans Newsletter. The Academy's corresponding news release was highlighted by Social Security Report, Pharmacy Choice, The Street, and other outlets.

A presentation on ACA reinsurance fees by Joyce Bohl, a member of the Academy Federal Health Committee, during the March 8 meeting of the National Conference of Insurance Legislators was reported by *LifeHealthPro*.

The Academy's March 10 letter to the National Association of Insurance Commissioners Health Risk-Based Capital Working Group was posted in BenefitsLink Health & Welfare Plans Newsletter.

PROFESSIONALISM COUNTS

By the Numbers

The latest annual report of the Actuarial Board for Counseling and Discipline (ABCD), which breaks out alleged violations by precept in addition to giving the areas of practice and the number of cases for the year, shows that 73 percent of cases reported to the ABCD in 2013 were in the pension practice area.

Alleged violations of Precept 1 topped the list, with 18 alleged violations, including failure to act with integrity, failure to perform services with competence, errors, and failure to uphold the reputation of the actuarial profession. Of those alleged violations, six were dismissed, six dismissed with counseling, and six recommended for discipline (each case contains multiple alleged violations).

Precept 3 followed closely, with 17 alleged violations of work failing to satisfy an actuarial standard of practice or use of unreasonable assumptions. Of those alleged violations, three were dismissed, 10 dismissed with counseling, and four recommended for discipline.

Five alleged violations involved performing work when not qualified (Precept 2), of which two were dismissed and three dismissed with counseling. And seven alleged violations involved inadequate communication (Precept 4), of which three were dismissed, two dismissed with counseling, and two recommended for discipline.

In total, the ABCD received 82 requests for guidance and 15 cases last year. Of the 15 cases, 11 were in the pension area, three in health, and one in life.

Objective. Independent. Effective.

By Tom Terry

THE ACADEMY'S PRIORITIES AND INITIATIVES to pursue its mission are set at the beginning of the year (see the January issue of *Actuarial Update*). That's the "what"—the what of our service to the public and to the U.S. actuarial profession.

But what about the "how"—how we get there? And why is the how important?

Since 1965, the Academy has built and work to enhance its systems and processes to create a culture of objectivity and a structure of independence. The result is an Academy that's effective in providing a credible voice that policymakers seek and trust.

Objective. Independent. Effective.

These Academy values stem from its governance, are built into its review processes, and are exhibited by volunteers and staff every day. Our strong commitment to these values is what differentiates the Academy.

American Academy of Actuaries

Objective. Independent. Effective.™

Objective.

Serving the public and the U.S. actuarial profession requires the professional objectivity of Academy volunteers.

As the trusted voice of the U.S. actuarial profession, the Academy interacts directly with policymakers and regulators who make critical legislative and regulatory decisions. All Academy volunteers sign a conflict-of-interest acknowledgment and attest to compliance with continuing education requirements. This is more than an Academy policy. It's a manifestation of the Academy's culture.

"We have a responsibility to speak out on matters that are important to the public and in which actuaries have a pertinent and informed perspective. Our analysis of data, our understanding of risk, and our facility with models are important. But so are the underlying principles that guide us—integrity and objectivity being paramount."

—Tom Terry, president

Independent.

The Academy is the place where individual expertise is elevated to a collective profession that serves the public.

Actuarial perspective is vital to inform and address issues on behalf of the public interest. Our independent voice must be credible, balanced, and free of undue influence benefiting partisan viewpoints.

The Academy was created to be that independent, trusted voice of the U.S. actuarial profession, and to establish and maintain high professional standards of actuarial qualification, practice, and conduct.

"Annual attestation is a means by which every Academy volunteer visibly and tangibly acknowledges that—meeting by meeting and discussion by discussion—his or her work for the Academy is free of conflicts."

—Cecil Bykerk, immediate past president

Effective.

On Capitol Hill or in the media, the Academy is invited, welcomed, and trusted to deliver reliable and credible expertise on critical issues facing the United States today.

If you haven't kept up with some of the latest initiatives, take a moment to see how our work is making a difference and how your voice is more relevant than ever:

- Public Pension Plans Academy eGuide;
- Retirement for the AGES;
- Essential Elements;
- Lifetime Income Initiative;
- Principle-based Approach Project.

"Our volunteerism allows us to make a difference. As such, each volunteer is in a position to strengthen and give back to our profession to enhance the credibility and trust with the public we serve."

—Karen Terry, vice president for professionalism issues

TOM TERRY is the Academy's president.

LIFE BRIEFS

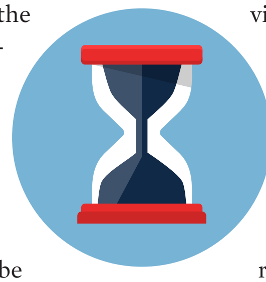
- **Stephen Murphy**, senior vice president for Ohio National Financial Services in Cincinnati, has joined the Variable Annuity Reserves Work Group.
- **John Rose**, principal actuary for Genesis Financial Development in Toronto, has joined the Nonforfeiture Modernization Work Group.
- **Jennifer Parkes**, actuary for TIAA-CREF in New York, has joined the C3 Life and Annuities Work Group.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **James Bryant**, second vice president and deputy corporate actuary for Guardian Life Insurance in New York, and **P. Andrew Ware**, vice president and actuary for Northwestern Mutual in Milwaukee, have joined the Solvency Committee.

Academy Saturates NCOIL Spring Meeting

ACADEMY MEMBERS made a splash at the March 7-9 spring meeting of the National Conference of Insurance Legislators (NCOIL) in Savannah, Ga.



Speaking at a March 7 panel on longevity risk and insurance, Ellen Kleinstuber, vice chairperson of the Academy's Pension Committee, discussed how pension plan sponsors are reacting to increased longevity, the important of access to annuities, and what can be done to help retirees deal with increased longevity.

Kleinstuber also offered comments at a March 9 discussion by NCOIL's Financial Services and Investment Products Committee on a proposed pension de-risking model act. The proposed model law would establish state-level protections for retirees whose pension benefits were transferred from a pension plan protected under ERISA to a substitute pension plan, such as an annuity. Kleinstuber offered several cautionary notes on the model act, pointing out that it could significantly affect the annuity market for pension plans seeking to de-risk.

Joyce Bohl, a member of the Federal Health Committee, spoke on March 8 as part of a panel on the Affordable Care Act and underwriting. Bohl provided an overview of rating and discussed individual versus small group rates, expected 2015 regulatory changes, and the importance of participation in estimating future rates.

Meeting for the first time, NCOIL's International Issues Task Force agreed to work with the National Association of Insurance Commissioners to develop an advocacy approach to international issues affecting the state-based regulatory system. The task force reiterated its determination to engage with Congress and federal agencies on international insurance issues. The task force's advisory council, which provides input to the task force on key international issues, also held its first meeting. Nancy Bennett, the Academy's senior life fellow, is a member of the advisory council.

In other spring meeting actions, legislators:

- Explored potential long-term flood insurance reforms;
- Readopted an NCOIL life settlements model act;
- Participated in a special state-federal committee session on the Federal Insurance Office's December 2013 insurance modernization report;
- Discussed possible improvements to an NCOIL model unclaimed life insurance act.

—BILL RAPP

The Academy Capitol Forum: Meet the Experts Webinar Series

Actuarial Insight at the GAO

THE WINTER OF 2014 brought record snowfalls to the U.S. Midwest and Northeast, and record droughts in the Southwest. Beyond environmental concerns, how is the federal government addressing the risk associated with these climatic events?

In a March 20 Academy webinar, Frank Todisco, chief actuary at the U.S. Government Accountability Office (GAO) and a former Academy senior pension fellow, discussed the work the GAO is doing in this and many other sectors of actuarial interest. In the area of climate change, for instance, Todisco is overseeing the launch of a strategic approach for managing financial risk related to climate change that will be coordinated across all federal agencies and, at the same time, will get the attention of Congress.

In his role as the agency's chief actuary, Todisco said, he is expected to offer his expertise on various actuarial issues of national interest, represent the GAO in external relations with other agencies and organizations, and testify before Congress on behalf of the GAO.

To accomplish all that, Todisco said, he often relies on Academy expertise.

"The Academy publications have been very helpful," Todisco said, citing in particular Academy issue briefs and comment letters. But Todisco also seeks in-person meetings. "In my three-plus years at the GAO, we have interviewed a lot of Academy experts on different topics to get their expertise and input," Todisco said.

His work at the GAO has given him new insight into just how beneficial the Academy's work is to outside organizations like the GAO, Todisco said.

"On behalf of GAO, we'd like to express our appreciation with everything that the Academy has done," Todisco said.

As part of his webinar presentation, Todisco offered an overview of the evolution of the GAO from its establishment in 1921. The GAO is charged with providing Congress with nonpartisan reports and ensuring government accountability and that all government programs are meeting appropriate objectives.

In his position at the GAO, Todisco is involved in a variety of projects related to the GAO's high-risk list. The list, which currently includes 30 items, is issued with each new Congress and helps draw attention to areas that are most in need of reform or that are most susceptible to corruption. In addition to the climate change initiative, projects on which Todisco said he is working include reviews of the National Flood Insurance Program, the U.S. Postal Service, and pension issues. In his work with the U.S. Postal Service, for instance, Todisco said he was focusing on the restructuring of the postal service to stanch the income losses stemming from the explosive expansion in recent years of technology-based communication.

Academy Advises Senate on Insurer Capital, Retirement Security

THE ACADEMY PROVIDED TESTIMONY for two separate hearings called by subcommittees of the U.S. Senate Committee on Banking, Housing and Urban Affairs this month. One hearing was called to study insurance industry concerns about capital regulation, the other to study the state of the retirement system.

In March 11 written testimony to the Senate Subcommittee on Financial Institutions and Consumer Protection, William Hines, the Academy's vice president for risk management and financial reporting issues, provided background on capital regulation for insurers.

Sen. Susan Collins (R-Maine), the author of a provision in the Dodd-Frank Act that set capital standards for the insurance industry similar to those set for the banking industry, recently introduced legislation seeking to ease those requirements.

In his testimony, Hines wrote that "the capital requirements for insurers must be established in recognition of the nature of the business of insurance as distinct from other financial services." Consumers have different needs from banks and insurance companies, Hines wrote, and insurance companies face unique risks. Most insurance companies, he explained, "hold capital in excess of regulatory requirements."

Hines also briefly explained the development of risk-based capital regulation by the National Association of Insurance Commissioners.

Senior Pension Fellow Donald Fuerst provided written testimony on the state of U.S. retirement security for a March 12 Subcommittee on Economic Policy hearing, "Can the Middle Class Afford to Retire?" Several pieces of legislation before the Senate this year affect the retirement system.

In his testimony, Fuerst sought to familiarize senators with a number of issues fueling what Sen. Jeff Merkley (D-Ore.), who chaired the hearing, called "the retirement crisis." Fuerst explained longevity risk, noting that, "Most people simply do not have the tools readily available to determine how much money they need to accumulate to finance a retirement that could last 30 years or more."

Fuerst urged the committee to focus on encouraging financial literacy, noting that some approaches to ensuring retiree lifetime income "already exist, but workers, retirees and society could benefit from taking actions that would encourage their use. The emphasis should be placed on education at the individual level as well as public policy initiatives."

In both cases, the Academy volunteered to assist the committee further as needed.

SSA Commissioner Gives U.S. News in Talk to International Actuaries

AT THE INVITATION of Academy President Tom Terry, Carolyn Colvin, acting commissioner of the Social Security Administration (SSA), addressed the President's Forum of the International Actuarial Association (IAA) in Washington on March 28.

The President's Forum is composed of the presidents of actuarial associations from around the globe and meets in conjunction with the IAA's semiannual council and committee meetings. Colvin told the assembled presidents about the challenges and opportunities facing the U.S. Social Security system. She also provided the news that the SSA is exploring the possibility of returning to an old practice—mailing paper statements that provide workers with an estimate of the Social Security benefits they are likely to receive.

The administration ceased mailing the statements to workers under 60 in 2011, Colvin explained, because "it cost us about $70 million a year just to mail those, and I thought it was more important to provide services. But this year we are revisiting that," she said, "because we believe that it's very important for workers to be able to review those earnings and ensure that that's accurate early on. It'll be much easier for us to correct the earnings then, than later, 30 to 40 years in the future, when they retire."

Social Security hasn't yet determined a schedule for the mailings. Colvin explained that paper statements would resume, but "not every year, as we've done in the past." Congress has asked the administration for a plan, she said, that might mean mailings "for significant life changes, or every three years, or every five."

Stephen Goss, chief actuary of the SSA, told forum attendees that the same information is available to taxpayers online, but that service has been little used. "My sense is that, if we can get to the point of every five years or something like that, we can put a message in there that says 'by the way, if you want to see it more often, here's the website,'" Goss said.

Praising the work of Goss and his staff, Colvin complimented the objectivity that actuaries bring to their work.

Describing Actuarial Professionalism

HAS YOUR OR ANOTHER ACTUARY'S WORK or conduct ever made you pause to consider issues of actuarial professionalism? Participants in the March 23 Professional Standards Seminar, held the day before the 2014 Enrolled Actuaries (EA) meeting, learned that, far from being a negative, it's healthy and indeed *necessary* for actuaries to cultivate self-questioning and a critical mind-set when it comes to thinking about actuarial professionalism.

A key point from this half-day, four-part seminar was that asking questions like "Am I qualified to perform this particular actuarial assignment?" or "Does this actuarial work (mine or another actuary's) run afoul of the code of conduct or actuarial standards of practice?" is itself integral to actuarial professionalism, no matter what level of experience an actuary has.

The enrolled actuaries in attendance learned that questions about continuing education (CE) typically fall into two categories that are usually (but not always) distinct: those related to compliance with the Joint Board for the Enrollment of Actuaries (JBEA), and those related to the U.S. actuarial profession's standards.

Focusing his remarks on Joint Board compliance, Patrick McDonough, the executive director of the JBEA, provided an overview of the EA disciplinary process and rules for maintaining an active EA designation. Several enrolled actuaries in the audience had questions about this year's renewal process for their EA credential, including the CE requirement. McDonough said that "there have been perhaps three actuaries in the past 10 years we've had to tell they are no longer active" because the CE materials they submitted did not qualify under JBEA rules. He was quick to note, however, that the JBEA's review is limited strictly to Joint Board compliance. The JBEA does not make determinations about actuarial professionalism in any broader sense.

Assessing actuarial professionalism beyond the scope of the JBEA regulations involves asking whether the enrolled actuary (if he or she holds a credential from one of the five U.S.-based actuarial organizations) followed the Code of Professional Conduct, the U.S. Qualification Standards, and/or actuarial standards of practice (ASOPs).

Panelists made it clear that judgments about actuarial professionalism can vary from simple to quite complex.

For example, Sheila Kalkunte, the Academy's assistant general counsel, noted that some code violations also violate JBEA regulations, while other violations may not violate regulations that apply only to enrolled actuaries. Many violations relate to an actuary's own conduct, whereas others (such as Precept 13 violations) relate to the responsibility to act based on the conduct of another credentialed actuary.

Actuarial Board for Counseling and Discipline Chairperson Bob Rietz uncovered significant differences of opinion in the audience about what constitutes a code violation through a series of case studies. In one hypothetical scenario, he showed how a change in a single variable, such as the length of a proposed smoothing period for a public pension plan, could transform a unanimous audience into one with sharply divided opinions. "Each case is very fact-specific," Rietz said.

Actuaries can get help with even the most complex professionalism issues by contacting the ABCD. ABCD Staff Attorney Brian Jackson urged the audience to get help in interpreting the code and/or standards through requests for guidance at www.abcdboard.org.

Keeping Our House in Order

THERE APPEARS to be a disconnect in the actuarial world when it comes to understanding the obligation to take action when encountering work that appears to materially violate the U.S. Code of Professional Conduct.

While actuaries frequently say they see work that appears to violate the code, there's been no corresponding rise in violations reported to the Actuarial Board for Counseling and Discipline (ABCD).

"This suggests that actuaries who are seeing bad actuarial work that potentially violates the code aren't reporting it," said Sheila Kalkunte, the Academy's assistant general counsel. Kalkunte made her remarks at the Academy's March 14 webinar, "Precept 13: Preserving Integrity and Public Trust."

The webinar and a related discussion paper, *The Application of Precept 13 of the Code of Professional Conduct*, offer actuaries a fresh perspective on the issues involved in reporting violations of the code as required by Precept 13. Lisa Ullman, a member of the Academy's Committee on Professional Responsibility who helped to write the Precept 13 discussion paper, and John Purple, a member of the ABCD, offered webinar attendees their perspectives on the issue.

"As a profession, we are all complying with this code of conduct so we're our own policeman," Ullman said. "But we don't want to make adversaries of each other."

Professionalism, however, is a community responsibility, Ullman said, explaining, "We should be working with each other—with courtesy and professional judgment—to make sure we never produce an actuarial work product that is a detriment to the public good."

"Raising awareness is the key thing here," Purple said. "Actuaries need to put their professionalism hat on and understand how to assess potential violations of the code."

Purple suggested that in order to avoid potential violations, "actuaries need to let ASOP 41 be their friend. A key to all actuarial work is getting it documented and to communicate. The more you use your actuarial judgment and communicate with another actuary, the better off you're going to be."

Academy members can access slides and an audio recording of the webinar by going to the Academy's website.

2014 Enrolled Actuaries Meeting

Actuaries as Agents of Change

AFTER THE MARKET MELTDOWN OF 2008, a newspaper article about its effect on retirees featured a 56-year-old man who had expected to retire at age 57 and was now despairingly looking at having to defer retiring until age 59.

Is this the poster child of the retirement crisis?

Not really, said Tom Terry, the Academy's president, who referred to the article in a panel discussion on retirement in the United States, which was the final session of the 2014 Enrolled Actuaries meeting and led into the 2014 Pension Symposium. Joining Terry on the panel were Steve Goss, chief actuary for Social Security, and Tom Finnegan, a principal with the Savitz Organization and president of the ASPPA College of Pension Actuaries.

"The retirement crisis takes on many different faces, and that's a little bit of the challenge for us," Terry told enrolled actuaries. Different segments of the population—low-earners, consumer advocates, small businessmen, corporate officers—all look at recent dramatic shifts in the retirement landscape differently.

If there is a crisis, it's more to do with expectations, said Finnegan: "Everyone expects to retire at or by 65, and the fact is, that isn't likely to happen."

To cut through the chatter and gain consensus, Terry suggested, it might be better to deploy the simple equation: consumption = production.

"Most of us are consumers for all of our lives," Terry said, and those lives are getting longer. Right now, age 65 is the proxy for the end of our productive years, but should it be? The toughest challenge, Terry said, may lie in changing a retirement system that is based on promises made. "We need to talk about retirement transformation, rather than retirement reform."

While longer life spans, combined with a sagging birthrate, have combined to put pressure on a Social Security system that was constructed when the parameters were different, said Goss, it's the latter that's more worrisome to him.

"Developed nations are aging," Goss said, "but from our perspective, what is more important is the age distribution of our population compared with the past."

It's not an insoluble problem, Goss said, but society needs to decide how much it is willing to pay for. "What do the American people want—and are they willing to pay for it," he said.

Part of that discussion needs to focus on the effect of tax policies on retirement saving systems, said Finnegan. Citing statistics showing that 50 percent of private-sector employers have fewer than 500 employees, Finnegan said greater incentives need to be in place to encourage small employers to offer retirement plans.

Finnegan added that as defined benefit plans become more and more rare, there is a need for the actuarial profession to redeploy its skills in educating retiring workers on how best to administer their 401(k) and IRA savings. "It's not uncommon for people to manage their money based on what they believe their life expectancy is," Finnegan said, adding that most people, if they look at them at all, look at mortality tables starting from birth rather than from age 65. "This is a real opportunity for actuaries to work with people on the disbursement portion of their retirement," Finnegan said.

Tom Terry, second from right, discusses retirement issues with, from left, Tom Finnegan, Steve Goss, and Ellen Kleinstuber.

PENSION BRIEFS

- **Colleen O'Malley Driscoll**, executive director for Ernst & Young in Chicago, is now the vice chairperson of the Joint Committee on Retiree Health.
- **Keith Panetta**, director for PricewaterhouseCoopers LLP in Chicago, has joined the Pension Accounting Committee.

Mortality tables were the subject of the second general session of the March 23-26 meeting, with panelists offering an in-depth look at the recent Pension Mortality Study conducted by the Society of Actuaries (SOA) Retirement Plans Experience Committee. Using the findings of the study, the SOA plans to publish new retirement plan mortality tables that will supersede the RP-2000 tables and Scale AA.

In the opening session of the 2014 EA Meeting, panelists focused on the importance of actuarial standards of practice in guiding pension practice.

"In many professions, there's a steep asymmetry in knowledge between the provider of services and the client," said Gordon Enderle, former chairperson of the Actuarial Standards Board's Pension Committee. "Your work matters," Enderle told meeting attendees, and standards are important tools to help actuaries successfully bridge that gap in knowledge.

Academy Partners With Health Care Cost Institute

THE ACADEMY has agreed to a three-year partnership with the Health Care Cost Institute (HCCI), a nonpartisan nonprofit research organization, to conduct public policy research.

The decision to join with HCCI is a significant step that will enhance and further inform the Academy's years of study examining current factors that affect the cost of health care in the United States.

The two organizations share a goal of improving public awareness of health care costs and utilization, and the partnership will allow the Academy to more effectively focus its own public policy work through access to HCCI's data. HCCI is dedicated to creating the most comprehensive source of information on health care activity in the United States and to promoting research on the drivers of escalating health care costs.

"The Academy has been heavily engaged in the past few years in assisting policymakers and regulators in Washington and state governments with navigating the complexities of the Affordable Care Act," said Academy President Tom Terry. "Two years ago, under my predecessor Cecil Bykerk's leadership, we looked toward more fundamentally addressing health care costs and quality of care to better focus national debate on them. Until we as a nation take concrete steps to address cost growth, we cannot ensure the sustainability of the health system as a whole."

In April, the Academy's Health Practice Council will launch the first in a series of papers aimed at providing policymakers with options for addressing cost growth and improving quality of care.

HEALTH BRIEFS

Robert Hastings, actuary for Family Health Network in Chicago, has joined the Federal Health Committee.

Hill Visits, continued from Page 1

Geoffrey Sandler, a former Academy vice president for health issues, said he also found Medicare solvency and sustainability to be a major theme. In addition, he noted that policymakers have been trying to understand how the risk corridors and risk adjustment mechanisms in the ACA are going to work. Using Medicare Part D as an example of a program that included those components, he said, policymakers found the Academy's explanation of how Medicare Part D risk corridors work and why risk adjustment is going to be even more important going forward to be very helpful.

For those policymakers looking beyond ACA implementation, another area of interest centers on what to do about health care cost growth. A recent report from the Centers for Medicaid & Medicare Services (CMS) shows current growth in national health care spending has slowed significantly.

"We mentioned our work on cost of care, and they asked if we believe the care cost stabilization trend is an ongoing phenomenon or just a point-in-time thing," said Mike Nordstrom, chairperson of the council's Medicaid Work Group. "They were very interested to know what we came up with on that."

For Hill offices concerned with ACA implementation, the risk-sharing mechanisms remain an ongoing area of interest. Academy Senior Health Fellow Cori Uccello has been actively involved in informing lawmakers about risk corridor provisions, submitting written testimony for a Feb. 4 U.S. House Committee on Oversight and Government Reform hearing on the issue.

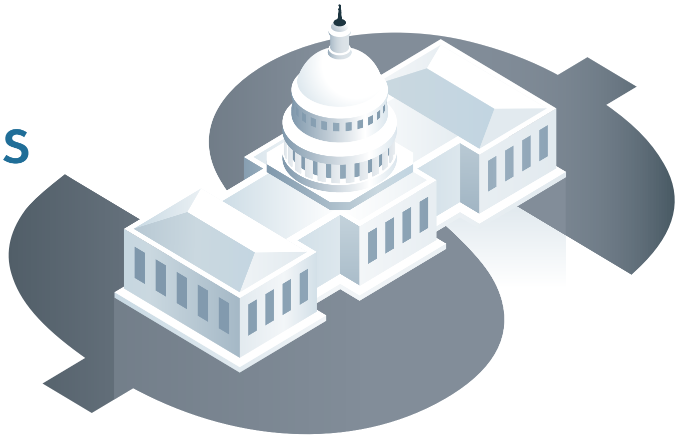
Over the course of two days, members of the Health Practice Council participated in 35 meetings with various offices and agencies, including the Congressional Budget Office, the Congressional Research Service, the Center for Consumer Information and Insurance Oversight, the U.S. Government Accountability Office, the Treasury Department, and with staffers on both sides of the aisle on committees of jurisdiction in the House and Senate.

"Overall, the tone was more collaborative than it's ever been," said David Shea, the Academy's vice president for health issues. Catherine Murphy-Barron, chairperson of the council's Committee on Federal Health Issues and a member of the Academy's Board of Directors, echoed the sentiment: "They were very appreciative. They said numerous times that they really appreciate the fact that we work with them on an ongoing basis."

Joining Shea, Murphy-Barron, Driscoll, Nordstrom, and Sandler in the visits were Cecil Bykerk, the Academy's immediate past president, former health vice presidents Michael Abroe, John Schubert, and Tom Wildsmith, and Karen Bender, Joyce Bohl, Audrey Halvorson, Laurel Kastrup, Barb Klever, Donna Novak, Jeffrey Petertil, Michael Thompson, Dave Tuomala, Rod Turner, and Shari Westerfield.

—AARON HELMBRECHT

A Menu of Reform Options



THE PRESIDENT'S BUDGET REQUEST is an annual ritual in Washington that draws national attention to the federal government's finances, at least for a few days.

Capitalizing on this heightened focus on financial issues, the Academy's Social Security Committee released an updated monograph, *Social Security Reform Options*, the day before President Obama delivered his FY2015 budget request to Congress.

The timing was designed to put reform options—and actuarial analysis of those options—in front of Congress at the traditional start of the federal budget cycle.

In a March 3 statement announcing the monograph's release, Academy President Tom Terry called for policymakers to put aside partisan differences, review the options set forth in the monograph, and build the consensus needed to address the challenges facing the program.

"Addressing Social Security's long-term financial issues, and specifically reaching the bipartisan commitment required to act on reform, is long overdue," Terry said. "The analysis published today by the Academy provides a comprehensive menu, in one place, of reform options for Congress to consider, along with an essential discussion of the implications of each option."

The monograph describes the financial condition of Social Security and outlines reform approaches based on actuarial methods and principles. Its analysis of the financial condition of the program is based on the data in the 2013 Social Security Trustees Report, the most recent one available. The monograph warns readers that "[t]he projected shortfalls in the most recent trustees report reinforce the need to make further efforts to strengthen and reform the financing and/or change the benefits of the program for future generations." The Social Security trust fund exhaustion date remains unchanged from the prior year's report. The trust fund is projected to run out of assets during 2033, and if reform is not implemented by that date, benefits will have to be reduced by about one-fourth thereafter.

Among the many options examined in the monograph are:

- Raising the full retirement age to reflect increased longevity since the Social Security program was enacted;
- Making changes within the current structure to increase the revenue of the system, such as increasing the payroll tax or the limit on taxable earnings or investing in securities markets;
- Making changes within the current structure to slow the growth of benefit payments, such as modifying the cost of living increases or means testing of eligible beneficiaries;
- Establishing mandatory or voluntary individual investment accounts, and options for annuitization.

Don't Let the Sun Go Down on PPA

BUFFETED by the financial turbulence of the past 15 years, multiemployer pension plans are struggling. That situation will only worsen if Congress allows certain multiemployer provisions of the Pension Protection Act of 2006 (PPA) to sunset at the end of 2014.

That was the urgent message in a March 31 letter sent by the Academy's Pension Practice Council to Congress. Noting that more than 10 million participants are covered by multiemployer defined benefit plans maintained through collective bargaining agreements between employers and unions, the Academy urged congressional action to prevent the uncertainty associated with the upcoming sunset to further stress beleaguered multiemployer plans, contributing employers, and the Pension Benefit Guaranty Corp. (PBGC).

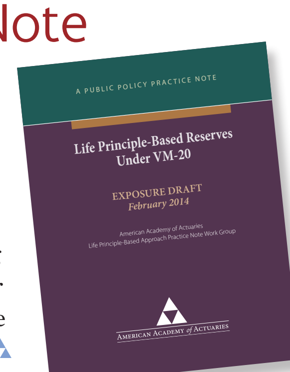
Merely extending current PPA provisions isn't enough, however. Because a certain number of multiemployer plans are severely underfunded, the Academy stated, further reforms are necessary to strengthen the system as a whole.

Financial Reporting Committee Blitz

MEMBERS OF FINANCIAL REPORTING COMMITTEES from four Academy practice councils convened in Washington in late March for a joint meeting. After meeting separately, members of the Financial Reporting Committee, the Health Practice Financial Reporting Committee, the Committee on Property and Liability Financial Reporting, and the Life Practice Financial Reporting Committee came together to update each other on individual committee action and to discuss topics of mutual interest in the area of financial reporting.

Comments Due on VM-20 Practice Note

TIME IS RUNNING OUT to read and comment on the Academy's draft practice note, *Life Principle-Based Reserves Under VM-20*. The exposure deadline for the draft, which details proposed requirements for calculating minimum valuation statutory reserves for life insurance products outlined in the Valuation Manual, is April 25.



A proposed new definition of "qualified actuary" from the NAIC Joint Qualified Subgroup was discussed at several task force meetings. The Academy has submitted written comments explaining that Academy membership is integral to qualifying actuaries who sign NAIC-prescribed opinions. The proposed definition discussed at the NAIC conference incorporates the "MAAA" as essential to qualification. It also requires validation of qualifications according to an Academy verification process. At the March 29 Casualty Actuarial and Statistical Task Force (CASTF) meeting, Miller told regulators that "we are working on developing a process and encourage your input."

Representatives of Academy councils, committees, and work groups made presentations to NAIC attendees on several other topics, including:

- At LATF, updates on mortality table development, a proposed amendment to VM-20, proposed language for AG 33, and the gross premium nonforfeiture method;
- At the Health Actuarial Task Force (HATF), an update on initial results and next steps for Medicare supplement review and an overview of Health Practice Council activity;
- At NAIC's Investment Risk-Based Capital (E) Working Group, Senior Life Fellow Nancy Bennett delivered a presentation on preliminary output from the corporate bond model;
- At CASTF, an update on Committee on Property and Liability Financial Reporting activities.

In advance of the meeting, the Actuarial Opinion and Memorandum Discussion group released a report on ideas to improve the communication of issues within the appointed actuary's memorandum.

Standards Update

ACTUARIAL STANDARDS BOARD (ASB) Chairperson Patricia Matson provided state insurance regulators at the National Association of Insurance Commissioners spring meeting with updates on actuarial standards of practice (ASOPs), including changes to better reflect and provide actuaries with guidance on requirements related to the Affordable Care Act (ACA).

"There's a high demand for guidance on actuarial work related to ACA implementation," Matson said. "This has led to updates to the exposure draft of ASOP No. 8, and the development of a new discussion draft on minimum value and actuarial value."

The ASB discussed ASOP No. 8, *Regulatory Filings for Health Plan Entities*, at its March meeting and will issue the updated ASOP after making a final revision, Matson told regulators at the March 28 meeting of the NAIC Health Actuarial Task Force. This ASOP gives guidance to actuaries who must prepare rate filings under more rigorous state and federal requirements for filing health insurance premium rate increases. Matson told regulators the ASB also discussed and is finalizing a discussion draft of an ASOP on actuarial value/minimum value. Comments on an exposure draft, *Medicaid Managed-Care Capitation Rate Development and Certification* are due May 15.

Other expected ASOP changes include the forthcoming revision of ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)*, which provides guidance on catastrophe modeling and will now apply to all practice areas instead of just property/casualty. The ASB will be discussing and could issue a new standard on principle-based reserving after its June meeting, where it will also discuss comments received on a highly anticipated exposure draft on modeling.

Mary D. Miller, left, and Patricia Matson present at the NAIC.

Early Bird Regulators Get the Scoop

IT WAS AN EARLY MORNING as usual for attendees of the Academy-hosted March 29 professionalism discussion breakfast for regulators at the National Association of Insurance Commissioners (NAIC) spring meeting. An estimated 30 regulators attended the breakfast, at which the 2013 annual report of the Actuarial Board for Counseling and Discipline (ABCD) was unveiled.

"This more robust version of the ABCD report gives the public a better idea of what the ABCD does and what our activities are," said John Purple, a member of the ABCD. Purple told regulators, "The request for guidance numbers went up from 62 in 2012 to 82 in 2013, which we think is a positive thing and shows that were getting the word out on our ability to respond to actuaries' inquiries on professionalism issues."

Other highlights from the report include a breakdown of alleged violations based on specific precepts. "We were able to talk through and help resolve several issues last year related to questions about Precept 13 where actuaries struggled to understand what a material violation of the code is," Purple said.

Patricia Matson, chairperson of the Actuarial Standards Board (ASB), asked regulators at the breakfast to submit feedback on ways to improve the prescriptiveness of actuarial standards of practice (ASOPs). "We'd like to get your input on how we can be more prescriptive to specific standards of practice, wherever there are regulatory requirements in the ASOPs," Matson said. "What we're trying to do at the ASB is based on your important input."

Other topics discussed at the breakfast included the handling of requests for guidance from regulators to the ABCD, ABCD investigation and adjudication guidelines, the auditing of continuing education for actuaries, and the positive effect of ASOP No. 41, *Actuarial Communications*, on actuarial practice.

John Purple discusses ABCD activities with regulators.

The System Works

SINCE 1990, Academy members who aren't members of the Casualty Actuarial Society (CAS) have been able to qualify to sign National Association of Insurance Commissioners (NAIC) property/casualty (P/C) Statements of Actuarial Opinion (SAOs). The Academy's procedure for qualifying such actuaries is a time-tested credible process that can be expanded to evaluate Academy members interested in signing P/C SAOs who are fellows of the Society of Actuaries' general insurance track.

That's the gist of a March 19 letter from Mike Angelina, the Academy's vice president for casualty issues, to the NAIC's Casualty Actuarial and Statistical Task Force.

Since its inception, the Academy process has resulted in the approval of 47 individuals to sign P/C SAOs who are Academy members but not members of the CAS.

In his letter, Angelina stated that the Academy believes that its process can be adapted easily to meet future needs—such as requests by fellows of the SOA's general insurance track—and urged regulators to point those fellows who are Academy members to apply for approval through the Casualty Practice Council's existing procedures.

CASUALTY BRIEFS

- **Jon Evans**, actuary for the National Council on Compensation Insurance in Boca Raton, Fla., and **John Wiechecki** of Liberty Mutual Group in Golden, Colo., have joined the Property Lines Committee.

PROFESSIONALISM BRIEFS

- **Allan W. Ryan** was appointed as the newest member to the Actuarial Board for Counseling and Discipline on Feb. 4. Ryan's area of practice is life insurance, in which he specialized in financial reporting. Over the course of a 42-year career, Ryan worked at major insurance companies and ran his own consulting practice.
- On Feb. 27, Academy President **Tom Terry** spoke at the University of Connecticut about the actuarial profession, the Academy, current major issues facing the nation and how the Academy is helping policymakers work on them, and the importance of volunteerism.
- **Bob Rietz**, chairperson of the Actuarial Board for Counseling and Discipline, spoke March 23 at the Professional Standards/Ethical Dilemmas Seminar that preceded the 2014 Enrolled Actuaries Meeting.
- **John T. Stokesbury**, director for Deloitte Consulting LLP in Parsippany, N.J., **Patricia Teufel** of West Hartford, Conn., and **Valerie Paganelli**, owner and president of Paganelli Consulting, Inc., in Seattle, have joined the Joint Committee on the Code of Professional Conduct.

Nominations Open for Academy Awards

The Jarvis Farley Service Award is given to Academy members whose volunteer efforts on behalf of the Academy have made significant contributions to the advancement of the profession. The Robert J. Myers Public Service Award recognizes actuaries who have made an exceptional contribution to the common good, whether for a single noteworthy public service achievement or a career devoted to public service.

2014 Life and Health Qualifications Seminar

An Efficient Way to Obtain Life and Health Qualifications

See why so many of your peers find this seminar the most effective way to acquire the basic and continuing education necessary for signing NAIC annual statement actuarial opinions.

WHEN: Nov. 10–13, 2014

WHERE: Key Bridge Marriott, Arlington, Va.

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