

THE ACTUARIAL UPDATE

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AMERICAN ACADEMY OF ACTUARIES

NOVEMBER 1997

Academy Annual Meeting: Kaufman Assumes Presidency, Hickman Honored with Service Award

Allan Kaufman took the gavel as Academy president at the October 6 Academy Annual Meeting in Scottsdale, Arizona. In his remarks, Kaufman praised the Academy's unique role as the only organization for U.S. actuaries in all areas of practice and promised to strengthen its activities in professionalism, public policy, and communications.

Kaufman announced that in January he will convene a meeting of leaders of all Academy committees, task forces, and work groups. The leadership meeting will focus on ways to better coordinate work among



Allan Kaufman (right) accepts the president's gavel from 1997 Academy President Larry Zimpleman.

the practice areas. "It is my hope that Academy leaders will emerge from that meeting with a clear idea of our common destination and a road map of how to get there," he said.

Communication is vital to the success of the Academy mission, said Kaufman. "If our public policy achievements are to make a difference for the profession, they must be communicated as effectively as possible to outside audiences," he said. "The profession's credibility with regulators and other outside audiences depends on our reputation for professionalism. We will work to better communicate the fact that actuaries' professional judgments are supported by meaningful standards of qualification, practice, and conduct," he added. Kaufman is a principal with Milliman & Robertson in West Paterson, N.J. and a former president of the Casualty Actuarial Society.

In his valedictory remarks, 1997 President Larry Zimpleman noted that the Academy has initiated a planning process to assess the organization's strategic plan and keep it in line with emerging challenges. In particular, Zimpleman cited the emergence of a global financial-service industry, which will further the trend toward international actuarial practice. "The Academy has a special role to play as the United States profession's designated representative with international organizations," he said. "Our profession's increased international focus will place additional responsibility on the Academy, which will need to assess how best to carry out its role."

Before handing off his presidential duties, Zimpleman presented the 1997 Jarvis Farley Service Award to Jim Hickman, former dean of the University of Wisconsin Business School.

Hickman was honored for his career of service to the profession. His volunteer résumé includes service on the Academy Board of Directors;

founding membership on the Actuarial Standards Board and its predecessor Interim Actuarial Standards Board; and eleven years' association with the Actuarial Education and Research Fund. As an academic, Hickman has held teaching posts at the University of Iowa, Georgia State University, University of Manitoba, and Nankai University in the People's Republic of China, and has to his credit more than 120 scholarly publications. In accepting the award, Hickman urged increased emphasis on actuarial research, calling it vital to the profession's long-term growth.

By voice vote, the Academy members present at the meeting approved the nominations of three new members to the Academy Board of Directors. Linda Bell, senior vice president and chief actuary of the Hartford Insurance Group in Hartford, Conn.; Jan Lommele, a principal with Deloitte & Touche in Hartford; and Peter Perkins, senior vice president and chief actuary of Trigon Blue Cross/Blue Shield in Richmond, Va., will serve three-year terms. Other Academy officers whose terms began at the Annual Meeting are President-elect Dick Robertson; Larry Johansen, vice president for the Financial Reporting Council; Ken Steiner, vice president for the Pension Practice Council; and Bob Wilcox, vice president for the Life Practice Council.

To fill Johansen's two remaining years as a regular director, the Board of Directors chose Curtis Huntington, professor of actuarial science at the University of Michigan. In addition to the officers and regular directors, the presidents and presidents-elect of the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries serve as special directors on the Academy Board. Presidents-elect joining the board are Howard Bolnick (SOA), William Falk (CCA), Steven Lehmann (CAS), and Carol Sears (ASPA). (For a full list of the Academy's 1998 Board of Directors, see page 3.) The Academy Annual Meeting was held in conjunction with the Annual Meeting of the Conference of Consulting Actuaries.



1997 Jarvis Farley Service Award recipient Jim Hickman receives his engraved pewter bowl from Larry Zimpleman. The award honors outstanding volunteer service to the profession and is named for Jarvis Farley, who donated countless hours to professional activities over his long career.

IN BRIEF

Actuary Selected for Medicare Post

Alice Rosenblatt, senior vice president and chief actuary of Wellpoint Health Networks, has been appointed to the federal government's Medicare Payment Advisory Commission. The 15-member commission is a new entity that replaces the Prospective Payment Assessment Commission and Physician Payment Review Commission. Rosenblatt is the only actuary on the new commission.

Rosenblatt is a member of the Academy Board of Directors and long-time volunteer, whose service includes a term as vice chairperson of the Health Practice Council. Last February, she represented the Academy in testimony on Medicare reimbursement methodologies before the House Ways and Means Health Subcommittee.

Casualty Actuarie Cited on Liability

A front-page story in the October 17 *New York Times* quoted three Academy members on auto liability rates. The actuaries explained the reasons behind increased liability rates on sport utility vehicles and pickup trucks.

Two insurers, Farmers Insurance Group and the Progressive Corporation, have changed their rate calculations because of high costs associated with heavier vehicles. "It's pretty obvious that the size and weight of these vehicles and the way they're built is contributing to the loss experience," Jonathan Adkisson of Farmers told the *Times*. "When an accident occurs the heavier vehicles are more likely to inflict damage and injuries, and these result in larger claims, so it seems appropriate to charge the drivers of those vehicles higher premiums."

Mike LaMonica, Allstate's vice president for auto insurance pricing, said that his company also was interested in adjusting rates. "What I envision is a liability system that varies rates more finely by make and model," he said. However, according to Dale

Nelson of State Farm, his company is not planning rate calculation changes because its experience shows higher costs only for large pickup trucks.

Academy Consulted on PSO Solvency

In a teaching session on risk, regulation, and risk-based capital, Academy Board member Peter Perkins briefed a federal committee on the hazards faced by provider service organizations (PSOs) that provide Medicare services. The Health Care Financing Administration negotiated rulemaking committee on PSO solvency met in Arlington, Va. on October 20.

Perkins' presentation detailed the types of risks confronted by PSOs and other health plans: insurance, business, regulatory, and investment risks. He explained that antiselection is an insurance risk derived from a "uniquely human factor. . . . People are good at predicting the amount of care they will need." Risk-sharing arrangements can help health plans manage the business risks they face. For example, Perkins said, copays designed to shift costs can also discourage overutilization of services, and reinsurance reduces the risk of large claims. Perkins noted that solvency regulation is undergoing a shift toward risk-based capital.

Risk-based capital regulation determines a minimum surplus to cover the level of risk unique to each entity.

Negotiated rulemaking is a process used by the federal government to develop regulations for newly passed legislation. The proposed rule is developed by a committee of representatives that may be significantly affected by the rule, with the goal of reaching consensus. The Balanced Budget Act of 1997, which expanded the PSO role in Medicare, required HCFA to consult with the Academy on solvency as part of the rulemaking process.

Academy members Julia Philips, a life and health actuary with the Minnesota Department of Commerce, and Ted Lyle, a principal with Towers Perrin, also participated in the meeting, discussing the application of risk-based capital formulas to solvency monitoring and PSOs.

PENSION NEWS

DAVID RIVERA

Social Security Issue Briefs Go to Hill

With two new Social Security issue briefs in hand, members of the Academy Social Insurance Committee visited Capitol Hill on October 22. Their message to congressional staffers was that the Academy is a unique technical resource that is ready and willing to be of assistance in the Social Security debate. Committee members also presented advance copies of "Raising the Retirement Age" and "Changes to the Benefit Formula and Taxation," the latest in a series of reports designed to educate the public on the implications of various Social Security reform options.

The series of eleven Capitol Hill visits were intended to strengthen relationships with key congressional staffers and gather intelligence on the 105th Congress's agenda for the next session. Congressional staffers, who are frequently bombarded by requests from lobbyists, expressed appreciation for the Academy's objective assistance on policy matters, according to Social Insurance Committee Chairperson Jerry Bogart. "I think it is really refreshing for Hill staff to hear from a group [the Academy] that doesn't have an axe to grind, and understand that we are there for them as a resource for extremely complex issues that Congress must tackle each day," he said. "For a staffer with five or ten different issues on his or her plate, the Academy brings serious value to the table."

The consensus of the staffers: Social Security reform will be a major issue next year, with a large part of the debate focusing on partial privatization of the system. The Academy examined the issue last year in two issue briefs on aspects of privatization, which were widely distributed on the Hill. Like their predecessors, the newly completed issue briefs on retirement age and changes in benefits and taxes outline the problems and possible solutions.

The report on retirement age notes that the U.S. normal retirement age (NRA) of 65 was determined on the basis of life expectancy in the 1930s. Although the NRA is scheduled to climb to 67 over the next two decades, some members advocate a further increase that could achieve a substantial portion of the savings needed to restore Social Security to long-range balance. The Academy report presents possible consequences of an increased NRA and urges Congress to consider several underlying questions during its debate on the issue. These include: What will be the impact on employer-sponsored benefit plans? How will Medicare be affected? Will the public accept additional increases in the NRA, especially individuals who would work full-time past age 67? To what extent will savings to the retirement trust fund be offset by losses to the Social Security trust fund for disability insurance?

In "Changes to the Benefit Formula and Taxation," the Academy committee examines the current benefit formula and notes that "the cost of the Social Security program may be reduced from current levels through any number of possible changes to the benefit structure." Among the cited changes are reductions in the factors that determine the primary insurance amount or increasing the number of years in the averaging period for benefits. However, such changes could affect Social Security's traditional balance between providing individual equity (or "money's worth") and serving as a safety net for the lower-income elderly.

"The issue briefs, in addition to the committee's Hill visits, are two important parts of an expanded effort by the Academy to make sure that Congress recognizes and benefits from the independent expertise of the actuarial profession," Academy Executive Director Wilson Wyatt said. Social Insurance Committee members met with the staffs of the following lawmakers: Sens. Phil Gramm (R-Tex.), Bob Graham (D-Fla.), Ben Nighthorse Campbell (R-Colo.), Jim Jeffords (R-Vt.); and Reps. Earl Pomeroy (D-N.D.), Sam Johnson (R-Texas), Jim Kolbe (R-Ariz.), and Mark Sanford (R-S.C.). The committee also exchanged information with the House Ways and Means Subcommittee on Social Security and the Select Committee on Aging. Copies of the issue briefs on changes to the retirement age, and changes to the benefit formula and taxation, can be obtained from the Academy Web site (www.actuary.org) or by faxing a request to Doreen Evans at 202-872-1948.

—RIVERA IS ACADEMY STAFF LIAISON TO THE PENSION PRACTICE COUNCIL.



At the October 6 Annual Meeting, Executive Director Wilson Wyatt (left), on behalf of the entire staff, thanked 1997 President Larry Zimpleman for his year of service. Wyatt presented Zimpleman with a set of presidential julep cups, handcrafted in Kentucky in a tradition that stretches back to the administration of George Washington. Before his service as president, Zimpleman was an active volunteer in the pension practice area and in his meeting remarks, urged other actuaries to consider volunteering for Academy public policy or professionalism projects. His presidential term completed, Zimpleman has joined the newly reestablished Membership Committee that is considering enhanced recognition for Academy volunteers.

ABCD Responds to Comments on Bylaw Change

Earlier this year, the Academy Board of Directors circulated for comment an exposure draft of proposed amendments to Article X of the Academy bylaws, which established and empowers the Actuarial Board for Counseling and Discipline (ABCD). The proposed changes generated sixty-three comment letters from eighty-three individuals.

As ABCD chairperson, I can assure you that the ABCD takes the membership's comments seriously and has devoted considerable time and thought to the comment letters. At our September meeting, the ABCD completed an initial review of the comments and began developing changes to the proposed amendments that would reflect commentators' suggestions.

Work continues on the proposed bylaw changes. In the meantime, there are a few observations that I would like to make regarding the comment letters and the ABCD's responses to them.

Due Process

It was never the desire or intent of the ABCD to eliminate actuaries' due process rights as set forth in Article X; rather, we intended simply to enumerate those due process rights in our Rules of Procedure. Nonetheless, it is apparent that a number of actuaries feel very strongly that these protections should continue to appear in the Academy bylaws, so that they will be subject to change only by a vote of the membership. In order to reassure those actuaries, the ABCD

currently intends to recommend to the Academy Board that Article X contain a list of due process protections that would include the following:

- Notice of an ABCD inquiry and the factual basis for the inquiry, and an opportunity to comment on the matter before the ABCD determines to refer the matter to an investigator.
- Notice of the ABCD's decision to refer a matter to an investigator and the investigator's name, and an opportunity to object for cause to the particular investigator appointed by the ABCD.
- The opportunity to review and comment on the Investigative Report before the ABCD takes an Investigative Report-based vote on the disposition of an inquiry.
- Reasonable advance notice of a hearing to be conducted regarding the actuary's work and/or conduct, including the issues for inquiry and the date, time, and place of the hearing.
- Within a reasonable period of time prior to a hearing, a list of any witnesses whose testimony the ABCD intends to consider, as well as a list

of documents the ABCD expects to consider and, if not previously provided, a copy of such documents.

- Notice before or during the hearing of any additional witnesses or documents the ABCD decides to consider, and a reasonable time to review and respond to such testimony or documents.
- The right to reasonable assistance of counsel during a hearing, including the right to seek and receive advice from counsel and to have counsel articulate legal objections, if appropriate. Any limits on the role of the actuary's counsel would apply equally to ABCD counsel.

The ABCD also agreed that Article X should provide that changes to the ABCD Rules of Procedure should be exposed to the membership for comment prior to their adoption.

Legal Representation

One of the points that appeared to be of greatest interest to commentators is the role of attorneys in ABCD cases. It was apparent that some members understood that the

exposure draft would essentially prevent attorneys from attending ABCD hearings or assisting their clients in responding to ABCD inquiries. As stated above, that was never the ABCD's desire or intent. We do believe, however, that it is appropriate for the ABCD, as a fact-finding body established by the actuarial profession to address issues arising out of members' professional conduct, to speak directly to actuaries who are the subject of ABCD inquiries on a professional-to-professional basis. An attorney who appears in lieu of the actuary is unlikely to be able to answer the ABCD's technical questions, with the result that professional dialogue between the actuary and the ABCD is impeded, and the ABCD's fact-finding responsibilities become more difficult to fulfill.

It should also be noted that counsel to the ABCD does not function as a "prosecutor," but instead acts as an adviser to the ABCD. Our intent was to place the actuary's counsel in a parallel role, advising the actuary but not serving as a "defense attorney" in a process that is not and, in our view should not be, comparable to a court proceeding. We are seeking to make our procedures more accurately reflect our private administrative nature. Having attorneys actively participate in our hearings tends to make them more adversarial, a tendency we wish to avoid. Although some commentators apparently would favor a more courtlike, adversarial system such as that in Canada, I do not believe that the U.S. profession would be well-served by the use of such an approach.

The ABCD members believe that the role of both attorneys in a hearing should consist of giving legal advice to clients (which would include interrupting the proceedings for private discussion and entering objections for the record). At this time, I anticipate that the ABCD will recommend accordingly to the Academy leadership.

Confidentiality

Several commentators raised questions concerning the confidentiality of the ABCD process. Having discussed confidentiality and related privacy issues at considerable length, the ABCD currently plans to recommend to the Academy leadership as follows:

- The confidentiality requirement applies to the ABCD, but not to the complainant or subject actuary. While the ABCD may consider it preferable for all the participants in the process to respect the privacy of those involved, we recognize that we currently have no means to enforce this preference.



Henry Knowlton

• The subject actuary should be permitted to waive confidentiality subject to agreement by the ABCD. Before releasing its records to any third party, the ABCD will need to assess carefully the privacy rights of the subject actuary, the complainant, and any other individuals involved.

• An actuary's waiver of confidentiality would not result in the ABCD conducting a public hearing. ABCD proceedings would be kept confidential while under consideration.

Public Hearings

Several commentators strongly supported the idea of holding hearings that would be open to varying degrees. After a great deal of discussion, we have come to believe that it is not practical to run both public and private hearings under a single set of rules. Public hearings would, we believe, require a separate set of procedures akin to those currently in use in Canada.

If the U.S. profession wishes to hold public hearings, the best venue to do so might be the membership organizations' discipline committees. Most ABCD cases are resolved through private counseling; only those cases that are deemed by the ABCD to be serious enough to warrant public discipline are forwarded to the membership organizations for consideration and action. It may be appropriate for the discipline committees to act publicly, but it seems unwarranted to question the professionalism of an actuary in a public setting unless disciplinary action is seriously contemplated.

A number of additional changes are likely to be recommended in light of comments received. These changes range from restoring language calling for the ABCD members to be "broadly representative" of the profession to replacing the term "ombudsman" (thought to be masculine gender by one commentator) to "mediator."

When the revised proposed amendments to Article X are released, the ABCD hopes that the membership will recognize its sincere efforts to respond to members' comments. We recognize, of course, that not all members of the profession will be entirely satisfied with the ABCD's recommendations. Nevertheless, we believe that the changes to Article X that we intend to recommend to the Academy Board of Directors will improve the ABCD process and, thereby, enhance the value of the process to the actuarial profession as a whole.

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FROM THE ANNUAL MEETING

Washington Commentator Addresses Academy

"Dan Quayle was right," political commentator William Kristol told the luncheon audience at the October 6 Academy Annual Meeting. Kristol, a regular on ABC's *This Week* and publisher of the *Weekly Standard*, is a political veteran who served as Quayle's vice presidential chief of staff.

According to Kristol, social science research and crime statistics continue to support Quayle's 1992 comments on single parenthood and TV's *Murphy Brown*. Kristol told the Academy audience that the current



Academy Executive Director Wilson Wyatt (right) presents an engraved pen set to luncheon speaker William Kristol.

fluid political situation makes it frustrating to work as a commentator and impossible to predict who will emerge as serious presidential contenders in 2000. Over the long-term, however, Kristol believes that conservatism will be dominant for the foreseeable future. "The elections of 1994 marked a sea-change in American politics, with Republicans making tremendous gains at the state and local level in once-solidly Democratic areas," he said. He noted that although the Democratic Party has moved to the right under President Clinton, the Republican Party should retain control of Congress in 1998.

QUALIFICATIONS NEWS

Opinion Signers: Time To Check Your CE

Once again, it's time to start work on year-end reporting. Actuaries must not overlook the need to be qualified to issue Public (Professional) Statements of Actuarial Opinion (PSAOs). If you intend to sign an insurer's actuarial opinion letter this year-end or issue a PSAO during 1998—whether for a life and health, property and casualty, or a hospital/medical service corporation—remember to review the continuing education (CE) requirements for signing Professional Statements of Actuarial Opinion. Those requirements are outlined in a publication already on your bookshelf. *Qualification Standards for Public Statements of Actuarial Opinion*—January 19, 1993 version—are found under the Academy Professional Standards tab of the Actuarial Standards Board's Actuarial Standards of Practice. An exposure draft of revisions to that booklet is included with this month's *Update*.

To be qualified to issue a PSAO, actuaries need to meet requirements in basic education, continuing education, and experience. The Annual Statement reserve opinions require meeting the Specific Qualification Standards; those CE requirements are described beginning on page 7 of the January 19, 1993 Qualification Standards and on page 9 of the draft second exposure booklet.

Continuing Education

Please review the current second exposure draft of the booklet

Qualification Standards for Professional Statements of Actuarial Opinion included with this mailing. There you will find the latest thinking of the Committee on Qualifications and two helpful pieces of information among its many improvements.

First, there are forms at the end of the booklet for use in recording continuing education credits. If you find the print a bit small, do not worry. The Committee on Qualifications will send full-sized forms with the final booklet. The information on those forms will help you collect and organize continuing education hours. The forms are essentially unchanged from the prior exposure draft of this booklet dated June 1996.

Second, if you don't earn the 24 hours of CE in 1996 and 1997 that are required to be qualified to issue PSAOs in 1998, be sure to read the clarification of the current *Qualification Standards* that is included in the exposure draft (the paragraph at the bottom of footnote 3 on page 5 and on the bottom of Form 3 on page 6. It states that if you obtain enough CE in 1997 and 1998 to be qualified to issue PSAOs in 1999 (a total of 24 hours in 1997 and 1998), you may begin to issue PSAOs in 1998 at any time after the date you qualify for 1999.

—BOB LIKINS
CHAIR OF THE ACADEMY COMMITTEE
ON QUALIFICATIONS

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ENCLOSURES

In Search Of ■ ASB Boxscore ■ Exposure Draft on Qualifications
Standards for Public Statements of Actuarial Opinion

Comment Deadline Extended for Qualification Standard Draft

Please note that the January 15 comment deadline for the second exposure draft of *Qualification Standards for Professional Statements of Actuarial Opinion*, included in this mailing, has been extended to February 15.