

AMERICAN ACADEMY OF ACTUARIES

2007 RECORD

*Academy
Year in
Review*

Introduction

These are exciting times to be a member of the Academy.

With the approval of a new strategic plan in October, the Academy's leadership has affirmed efforts by the U.S. actuarial profession to move forward in a new spirit of cooperation, and asserted the importance of speaking out on the implications of actuarial policy decisions that affect the American public.

With the adoption of revised Qualification Standards, the Academy has not only strengthened actuarial education and experience standards, but has broadened them as well: The updated Qualification Standards, which take effect Jan. 1, 2008, will apply to most credentialed actuaries who issue SAOs (statements of actuarial opinion) in the United States.

And with the recent formation of the Volunteer Resource Committee, the Academy has signaled to all its members that it wants and needs your input in these and future initiatives.

Whether you are one of the 500 new members who joined the Academy in 2007 or a long-time member, take a moment to review the 2007 Record. It includes an impressive array of major accomplishments in professionalism, public policy, and public affairs between October 2006 and October 2007. All of them undertaken on behalf of you, the profession, and the public. All of them made possible by you and other Academy members.

Professionalism highlights

**Council on Professionalism
Committee on Qualifications
The ABCD
The ASB**

Public policy highlights

**Casualty Practice Council
Health Practice Council
Life Practice Council
Pension Practice Council
Risk Management and
Financial Reporting Council**

Public affairs

Photo gallery



AMERICAN ACADEMY *of* ACTUARIES

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Council on Professionalism Highlights

The Council on Professionalism:

- In conjunction with the Conference of Consulting Actuaries, held the first of three similar webcasts on the revised Qualification Standards; the September 2007 webcast attracted approximately 1,000 participants.
- Provided speakers to discuss the revised Qualification Standards at the annual meetings of ASPPA, the CAS, the CCA, and the SOA and at meetings of local and regional actuarial clubs.
- Co-sponsored with the CCA a series of webcasts on a variety of professionalism topics.
- Sponsored the Academy's annual Life and Health Qualifications Seminar, for actuaries who might not meet all of the life- and health-specific Qualification Standard requirements to be able to issue PSAOs (prescribed statements of actuarial opinion).

- Formed a task force to determine whether the Council on Professionalism should take steps to implement any of the recommendations made in the final report of the Critical Review of the U.S. Actuarial Profession (CRUSAP).
- Delegated Academy staff to speak on professionalism topics at various courses and meetings of U.S.-based actuarial organizations.
- Appointed Kathy Riley, chairperson of the Committee on Qualifications, to serve as vice chairperson of the Council on Professionalism.
- Drafted a recommendation on the implementation of a conflict-of-interest acknowledgement for all Academy volunteers, which was approved by the Academy's Executive Committee.

Committee on Qualifications

- The committee finalized revised Qualification Standards that, among other things, expand the scope of the standards to apply to most credentialed actuaries who issue SAOs (statements of actuarial opinion) in the United States.
 - See recent publications, public statements, and other professionalism documents.

ABCD Highlights

■ The Actuarial Board for Counseling and Discipline, which is housed at the Academy, was established by the U.S. actuarial organizations to strengthen members' adherence to the recognized standards of ethical and professional conduct. The ABCD responds to actuaries' requests for guidance on professional issues and it conducts inquiries into possible violations of the actuarial Code(s) of Professional Conduct.

■ As of Sept. 30, 2007, the ABCD had 21 inquiries in process, compared with 17 at the same time in 2006. Of those 21 cases, three were scheduled for a hearing, four were awaiting investigation, seven were suspended, and seven were awaiting more information from the complainant, the subject actuary, or others.

■ The ABCD resolved six cases during the first three quarters of 2007. Four were dismissed, one resulted in counseling following an investigation, and one

ended with a recommendation for public reprimand.

■ By Sept. 30, the ABCD had also received 21 requests for guidance during 2007, and it continued its educational outreach efforts throughout the year. ABCD representatives made educational presentations at actuarial meetings and continued to write "Up to Code," which appears in each issue of *Contingencies* magazine.

■ The ABCD also launched its redesigned website in September 2007. Among other enhancements, actuaries visiting the ABCD site may make an online request for guidance and may ask to have an ABCD speaker for an upcoming function.

— ABCD publications and other resources related to counseling and discipline are available on the ABCD website.

ASB Highlights

The Actuarial Standards Board, which is housed at the Academy, serves the actuarial community and the public by developing and updating actuarial standards of practice (ASOPs).

Over the course of the past year, the ASB made the transition to digital ASOP distribution to improve efficiency and make it easier for actuaries to obtain and use ASOPs. The board continues to work with all five major U.S.-based actuarial organizations in its efforts to reach all actuaries in the United States.

From Oct. 1, 2006 to Sept. 30, 2007, the ASB:

Revised five ASOPs

- ASOP No. 3, Continuing Care Retirement Communities
- ASOP No. 4, Measuring Pension Obligations
- ASOP No. 24, Compliance with the NAIC Life Insurance Illustrations Model Regulation

■ ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*

■ ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*

Developed two new ASOPs

■ ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*

■ ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*

Repealed one ASOP

■ ASOP No. 16, *Actuarial Practice Concerning Health Maintenance Organizations and Other Managed-Care Health Plans*

— Visit the ASB website, where all the ASOPs are available.

Practice Council Highlights

Casualty Practice Council Highlights

The Casualty Practice Council:

- Published an update of its 2001 asbestos monograph, revised to reflect recent asbestos-related regulatory, legislative, and judicial developments.
- Submitted comments and actively participated in the National Conference of Insurance Legislators (NCOIL) drafting process for NCOIL's proposed model law governing how workers' comp coverage is treated in professional employee organizations.
- Updated the risk transfer testing practice note to include a discussion on the term "reasonably self-evident."
- Developed a course for regulators and financial examiners on risk transfer testing.
- Initiated, along with the National Association of Insurance Commissioners (NAIC), the reissuance of the risk transfer survey.
- Provided the NAIC with updated underwriting risk factors in advance of the NAIC fall 2007 national meeting.
- Met and corresponded with Senate Banking Committee staffers and other Senate staffers to discuss terrorism risk insurance modeling.
- Commented in a letter to all members of the House of Representatives on legislation extending the federal terrorism insurance program; the letter followed informal conversations with congressional committee staff before the bill was introduced.
- Offered a day-long seminar for P/C actuaries who write statements of actuarial opinion on reserves.
- Published an overview of the P/C loss reserving process for use by audit committees and boards of directors of P/C insurance companies.

— See recent Academy publications, analyses, and comments on public policy casualty issues.

Health Practice Council Highlights

The Health Practice Council:

- Continued to help congressional staff and other policymakers make sense of the solvency challenges facing Medicare, including publishing a monograph on Medicare reform options, commenting on the Medicare trustees' report, and sponsoring a Capitol Hill briefing.
 - Made presentations to the NAIC on the principles-based approach and long-term care.
 - Developed a discussion paper on premium deficiency reserves.
 - Commented to the Centers for Medicare and Medicaid Services on lessons learned from Medicare Part D.
 - Updated an issue brief on mental health parity.
 - Commented to Congress and policymakers on proposed genetic nondiscrimination legislation.
 - Sent letters to Texas state officials asserting the Academy's support for accrual accounting for other post-employment benefits, as well as the process that led to Governmental Accounting Standards Board (GASB) Statement 45.
 - Testified at a House Small Business Committee hearing on expanding small-business health insurance coverage using the private medical reinsurance market.
 - In conjunction with the Life, Casualty, and Risk Management and Financial Reporting councils, commented to the NAIC on its proposed life and health insurance principles for a principles-based reserving framework.
 - Published a fact sheet on the adverse consequences of secondhand smoke that summarized main points from a 2005 Society of Actuaries (SOA) study and a 2006 surgeon general's report on the topic.
- See recent Academy publications, analyses, and comments on public policy health issues.

Life Practice Council Highlights

The Life Practice Council:

- Continued to work with the National Association of Insurance Commissioners (NAIC) to advance the principles-based initiative for reserves and risk-based capital (RBC). Top projects included recommending language for a proposed valuation manual to support life and annuity reserve proposals, and for a draft of Actuarial Guideline VACARVM, as well as developing proposals for life and annuity RBC requirements and formulating economic scenarios that can be used in determining principles-based reserves and RBC.
- Advised the NAIC on potential proposals to revise the standard nonforfeiture law.
- Reported to the NAIC on developing a long-term RBC solution for hybrid securities.
- Drafted an update for the NAIC on statutory reserves for group life premium waiver benefits.
- Undertook development of proposed preferred mortality tables, in partnership with the SOA.
- Submitted reports and testified before the NAIC on the actuarial appropriateness of travel underwriting.
- Developed practice notes on applying FAS 133 to variable annuities with guaranteed benefits, C3 Phase 2 RBC and AICPA SOP 05-1, and updated the practice note on Regulation XXX.
- Formed numerous new work groups to undertake projects concerning discount rates, governance, group life tables, principles-based valuation, modeling efficiency, and pre-need mortality.
- Accomplished all of this by utilizing the skills of more than 100 volunteers who put in thousands of hours on various projects.

— See recent Academy publications, analyses, and comments on public policy life issues, including Academy life reports to the NAIC.

Pension Practice Council Highlights

The Pension Practice Council:

- Published a new issue brief that examines the factors that contribute to disparities in Social Security benefit levels between men and women and the specific impact of various reform proposals on the retirement security of older women.
- In conjunction with the SOA, produced a guide to help pension actuaries understand how financial economics influences their practice.
- Published a monograph on Social Security reform options and publicized it, and the revamped Social Security Game located on the Academy's website, at a briefing for reporters.
- Reiterated Academy concerns to the Department of Energy (DOE) about the possible reinstatement of a proposed policy denying reimbursements to DOE contractors for the costs of their new employees' defined benefit pension plans. The DOE subsequently announced it would not reinstate the controversial policy.
- Published a new issue brief that evaluates Social Security with an eye toward whether its defined benefit structure is preferable to a defined contribution structure for providing basic benefits.
- Commented on a Cost Accounting Standards Board discussion paper on harmonizing certain existing cost accounting standards with provisions of the Pension Protection Act of 2006 (PPA).
- Sent comments to the IRS about its guidance on changes in combined pension plan deduction limits as a result of the PPA, arguing that portions of the notice appear to be inconsistent with the language and intent of the new law.
- Asked the Treasury Department to reconsider its method for applying an anti-backloading rule (the four-thirds rule) to cash balance plans.
- Engaged in a number of meetings with congressional staff, policymakers, and advocacy groups working on social insurance issues.
- Met frequently with congressional staffers working on technical corrections to the PPA.

— See recent Academy publications, analyses, and comments on public policy pension issues.

Risk Management/Financial Reporting Council Highlights

The Risk Management/Financial Reporting Council:

- In conjunction with the Actuarial Standards Board, responded to a Financial Accounting Board (FASB) invitation to comment on whether there is a need for valuation guidance specifically for financial reporting and how such a need might be filled.
- Participated in a FASB roundtable discussion on the need for valuation guidance for financial reporting.
- Commented to the International Association of Insurance Supervisors (IAIS) on its final exposure draft of a paper on a common structure for assessing insurer solvency.
- Commented to the International Actuarial Association (IAA) on its exposure draft, Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins.
- Met with the American Institute of Certified Public Accountant Insurance Experts Panel to discuss business combinations, Financial Accounting Standards 157 and 159, risk transfer in casualty reinsurance, valuation guidance, the IAA risk margin paper, restrictions on actuarial reports, and the International Accounting Standards Board (IASB) insurance contracts discussion paper.
- Met with staff from the Securities and Exchange Commission's (SEC) Office of the Chief Accountant to discuss convergence between U.S. Generally Accepted Accounting Principles (GAAP) and International financial reporting standards, property/casualty claim reserve disclosures, and pension accounting issues.
- Commented to the IAIS on its paper on capital requirements and enterprise risk management for capital and solvency purposes.
- Commented to the IAIS on its paper about insurers' use of internal models.
- Commented to the SEC on its proposal to reconcile GAAP and international financial reporting Standards.

— See recent Academy publications, analyses, and comments on financial reporting and risk management issues.

Public Affairs Photo Gallery

Working with the news media is a vital component of the Academy's efforts to contribute to the development of sound public policy. While the Academy offers actuarial expertise on key public policy issues to lawmakers and regulators, news outlets carry the actuarial message to the broader public.

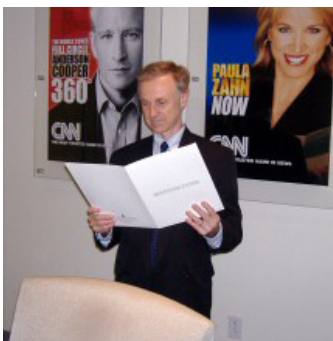
This photo gallery illustrates just a few of the Academy's recent public affairs activities. It also provides a sample of some of the issues on which the profession's voice is being heard — whether in a TV news interview, through congressional testimony, or during a presentation at a meeting of the NAIC.

Testifying to Congress



Patrick Collins, the vice chairperson of the Academy's Committee on Federal Health Issues, testifies at a congressional hearing in May 2007. Collins' testimony on medical reinsurance was cited in several news reports, including an article in the Washington Times.

Spreading the word



The Academy's senior pension fellow, Ron Gebhardt, prepares for a July 2007 meeting with reporters at CNN's Time Warner Center studio.

He and other Academy staff traveled to New York as part of an Academy media relations

tour, with the focus on such retirement issues as lifetime income security, longevity risk, and Social Security solvency.

Explaining public policy options



Academy Senior Health Fellow Cori Uccello leads a June 2007 Capitol Hill briefing on the Academy's new monograph on Medicare reform options. Articles about the briefing appeared in several newspapers, including the Washington Post and the Dallas Morning News. The monograph was mentioned in various publications, including a Cox Newspapers series.

Ready for prime time



Shawna Ackerman, left, co-chairperson of the Academy's P/C Extreme Events Committee, practices on-camera techniques as part of the Academy's media training program in May 2007. Twelve actuaries were trained to be spokespersons for the profession during 2007.

Staying ahead of the curve



Ron Gebhardtbauer discusses the Social Insurance Committee's monograph on Social Security reform options at a January 2007 press briefing.

The briefing also served as a forum to introduce the Academy website's redesigned Social Security Game. The game was featured in various publications, including the Washington Post and Newsday.

Reeling out the years



Journalists frequently turn to the Academy as a reliable source of data on life expectancy and longevity. Academy statistics were included, for example, in a USA Today feature on phased retirement.

Setting the record straight



Steve Lehmann, the 2006-2007 Academy president, addresses Academy members during the 2007 annual meeting. Just days before, BusinessWeek published Lehmann's letter to the editor, which pointed out that

a study cited by the magazine had understated the communication and management skills required by actuaries.

Trail-blazing volunteers



Tom Campbell, the Academy's vice president for life issues, speaks to Academy volunteers about the principles-based approach (PBA) for life reserves and capital.

Campbell and his colleagues from the Life Practice Council have been frequently quoted in the trade press for their PBA work with the NAIC.

Costs and consequences



Since its release in October 2006, Academy Senior Health Fellow Cori Uccello's fact sheet on the medical and economic costs of secondhand smoke exposure has been featured in numerous articles, including one in the Chicago Tribune.