JAN 2014

Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

# Academy 2014 Priorities

POLICYMAKERS in Washington and in state capitals across the nation are poised this year to take up a number of the issues that the Academy has identified as high priority.

The Health Practice Council again will be actively analyzing health care reform options surrounding the high-profile Affordable Care Act (ACA) and examination of health care cost issues.

Seeking to strengthen the U.S. retirement-income system by introducing a framework for assessing retirement plans and reform proposals, the Pension Practice Council already has rolled out its Retirement for the AGES initiative (see story below). It also plans to direct efforts in 2014 toward informing the debate over public-sector pension funding and Social Security reform.

The Life Practice Council continues to focus on facilitating implementation of the Standard Valuation Law (SVL) and accompanying Valuation Manual (VM), adopted by the National Association of Insurance Commissioners (NAIC) in late 2012, which would provide for principle-based reserving (PBR) for life insurance products. It also plans to monitor consideration of the SVL in state legislatures across the nation. A handful of states enacted the revised SVL before the 2014 legislative season, but a supermajority of states must enact it before insurers can utilize PBR, which has been a top priority of the Academy for the past decade.

The Casualty Practice Council will focus at the federal level on whether and how Congress will consider reauthorization of the Terrorism Risk Insurance Act (TRIA), which is scheduled to expire at the end of the year. It also will be monitoring efforts by Congress to either slow or roll back reforms adopted in 2012 by the Biggert-Waters Act. Among many other provisions, Biggert-Waters calls for actuarial risk-based premiums under the National Flood Insurance Program (NFIP).

The Academy also will concentrate on providing guidance to federal, state, and international policymakers and standard setters on qualifications for appointed actuaries, appropriate capital adequacy standards, effective solvency modernization, and federal regulatory oversight of insurance.

Here are the top priorities for 2014 developed by each practice council. Look for news of further action on these and other issues in the *Update* and on the Academy's website.

### Council on Professionalism

In keeping with the Academy's goal of promoting and encouraging actuaries to achieve and maintain the highest levels of professionalism, including qualification, conduct, and practice in their work, the activities of the Council on Professionalism (COP) encompass serving as a liaison

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*Academy Capitol Hill Briefing*

# Strengthening the U.S. Retirement System

TO HIGHLIGHT the need for a stronger U.S. retirement system, the Academy launched its multifaceted Retirement for the AGES initiative on Jan. 17 with a Capitol Hill briefing attended by policymakers, regulators, and the media.

The Academy initiative creates a framework for building enduring retirement-income systems that is based on four principles: alignment, governance, efficiency, and sustainability. The framework can be used to score existing retirement plans and systems and future proposals for reform. The goal of the Academy initiative is to spark public policy dialogue about creating more sustainable retirement plans that will benefit workers, employers, retirees, and society as a whole.

"Basically, it's a framework for retirement-system design," Eli Greenblum, the Academy's vice president for

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Don Fuerst addresses policymakers at Capitol Hill briefing.

**FEBRUARY**

**6** Latest Findings on National Health Spending from CMS webinar

**21** Academy Capitol Forum: Meet the Experts webinar, Systemic Risk Monitoring at the OFR

**MARCH**

**6-9** NCOIL spring meeting, Savannah, Ga.

**11** Executive Committee meeting, Washington

**20** Academy Capitol Forum: Meet the Experts webinar, Actuary Serving Congress: A Conversation With GAO's Chief Actuary

**23-26** Enrolled Actuaries Meeting, Washington

**29-April 1** NAIC spring national meeting, Orlando, Fla.

**30–Apr 1** Ratemaking and Product Management seminar, Washington

**30–Apr 4** ICA 2014, Washington

**APRIL 2014**

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

**MAY 2014**

**1-2** Academy Board of Directors meeting, Washington

**15-17** NAAC Meeting, Quebec, Canada

**JULY 2014**

**10-13** NCOIL summer meeting, Boston

**14** Academy Summer Summit, Washington

**AUGUST 2014**

**7** Executive Committee meeting, Washington

**16-19** NAIC summer meeting, Louisville, Ky.

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

## Welcome Spring in Our Nation's Capital

THE ACADEMY IS JOINING with other U.S.-based actuarial organizations to welcome actuaries from around the world to the 2014 International Congress of Actuaries (ICA) in Washington, March 30 to April 4. This is the first ICA held in Washington and the first time since 1957 that the ICA has met in the United States. These large-scale international meetings of actuaries occur only once every four years.

With up to 27 hours of continuing education credits available, the ICA program is diverse and relevant to U.S. actuaries from all practice areas.

In a January letter, President Tom Terry and Immediate Past President Cecil Bykerk (who is vice chairperson of the ICA 2014 Organizing Committee) encouraged Academy members to attend. "What we have found most valuable about attending ICA is that the topical sessions include the most current research, regulation updates, and also practical case studies from the U.S. and around the world," the two said.


By attending the ICA, you can learn what is happening on similar issues in the United States and other countries. Different registration packages are available, including three-day registrations for Monday to Wednesday or Wednesday to Friday. Registration is required to attend ICA 2014. To register now, visit ICA2014.org, or email info@ica2014.org for more information.

## A Call for Solvency and Sustainability

THE DAY BEFORE President Obama's Jan. 28 State of the Union address, the Academy issued a news release calling on the president and Congress to address the financial security of federal programs such as Medicare and Social Security. Noting that the options for addressing solvency and sustainability in federal entitlement reforms become more limited and difficult as time passes, Academy President Tom Terry said that while possible solutions vary depending on the program, "a basic fact remains that challenges will grow more unmanageable the longer they remain unattended."

## Looking Back at 2013

AT THE END OF EVERY YEAR, the Academy compiles an extensive digest of significant federal and state legislative and regulatory actions of interest to the actuarial profession. Key issues on which the Academy focused in 2013 included:

- Entitlement reform;
- Implementation of health care reform;
- Lifetime income;
- The National Flood Insurance Program;
- Natural catastrophe insurance;
- Terrorism risk insurance;
- Principle-based reserving;
- Public pension plans;
- Insurance capital standards;
- Activity at the International Association of Insurance Supervisors.

The review highlights those and many other Academy activities in 2013 and discusses areas that the Academy's practice councils will be focusing on in 2014.

## IN THE NEWS

Reporters called on the Academy to help explain how risk corridors function within the Affordable Care Act (ACA) in the following articles:

- *Washington Post* (Jan. 30)
- *Washington Post* (Jan. 27)
- *Wall Street Journal*
- *TIME*
- The Fiscal Times
- Yahoo! Finance
- Wall St. Cheat Sheet
- The Incidental Economist

Academy Senior Pension Fellow Don Fuerst was quoted by several outlets after President Obama's announcement during the Jan. 28 State of the Union speech that workers lacking a 401(k) will be able to apply for a government-sponsored retirement account:

- *Washington Post*
- Bloomberg News
- MSN Money
- SF Gate
- WRKO AM680 (Jan. 29 radio interview, starts at 34:52)
- Telegram.com

Earlier in January, Fuerst was also quoted in a report on teacher pensions published in the New London, Conn., newspaper *The Day*.

Proposals put forward in the Academy's new pension initiative, *Retirement for the AGES*, were reported by the following media outlets:

- *Dallas Morning News*
- MarketWatch
- Bankrate.com Retirement Blog
- Alliance for Retirement Income Adequacy
- Benefits and Pensions Monitor
- *Retirement Income Journal*
- Individual.com
- BenefitsCanada
- PlanSponsor.com
- PlanAdviser.com
- 401khelpcenter
- The 401kWire

Academy Immediate Past President Cecil Bykerk was quoted in a *Washington Post* story on state health insurance risk pools.

Academy Senior Health Fellow Cori Uccello provided perspective on new ACA enrollment data for the *Washington Post*, *The Hill*, Kaiser Health News, and the *Albany Herald*. Modern Healthcare reported on Uccello's Medicare policy recommendations to Congress, which she made as a member of the Medicare Payment Advisory Commission.

Academy members Kurt Giesa and Chris Carlson's January/February 2013 *Contingencies* article on the ACA was cited in a Jan. 8 *Wall Street Journal* editorial.

The Academy's Nov. 14 letter to Congress on the implications of delaying the ACA's minimum coverage provision in the individual and small group insurance market was mention in a story published in *US News & World Report* and the *New Haven Register*.

An Academy news release calling for President Obama to address solvency and sustainability in his State of the Union speech was reported by BenefitsPro, SeniorJournal.com, Social Security Report, and other outlets.

The Academy was cited as a source in a *Tampa Bay Times* report on beachfront property flood insurance.

The Academy's Jan. 28 letter to Federal Insurance Office Director Michael McRaith was reported by InsuranceNewsNet and Best's News Service.

The Academy's news release Actuaries: Using MAP-21 Discount Rates For Reporting Pension Obligations Can Be A Map To Misinformation was published in HispanicBusiness.com, the *BenefitsLink Retirement Plans* newsletter, and the Technology Marketing Corporation blog.

Academy analysis on state Medicaid expansion under ACA was cited by stories in the *Jasper County Sun* and Omaha.com.

A PBGC news release announcing changes to its rules regarding premium calculations cited the Academy.

The Academy's issue brief on premium changes under the ACA was cited in a story by AHIP.

The Academy's issue brief on measuring pension obligations was the subject of a story in the Cypen & Cypen law firm's newsletter.

## PROFESSIONALISM COUNTS

### *Webinar Bank: Are You Cashing In on This Resource?*

Next time you log in to the Academy website, take a moment to look over the trove of professionalism webinars. Your Academy membership entitles you to free and unlimited access to the Council on Professionalism's growing library of webinars dating back to September 2007.

"Access to this reserve of Academy professionalism webinars is one of our most valuable member benefits," says Karen Terry, the Academy's vice president for professionalism. "In addition to earning credits toward the annual required three hours of continuing education on professionalism topics as detailed in the U.S. Qualification Standards, members can keep current with actuarial trends and issues at their own convenience."

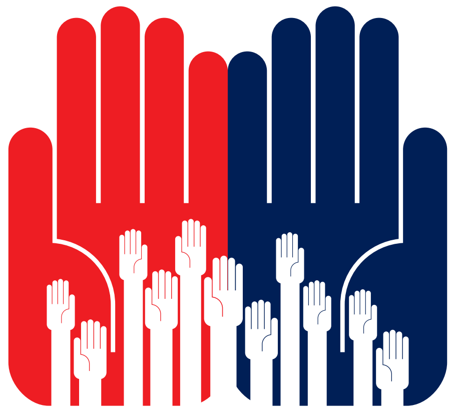
The recordings and materials cover topics essential for actuaries to meet U.S. Qualification Standards and perform their day-to-day work. From actuarial standards of practice and requests for guidance from the Actuarial Board for Counseling and Discipline to the Code of Professional Conduct and the application of the Code under specific circumstances, the content of the webinars is always relevant to issues that actuaries face in the real world.

Visit the professionalism webinars page to revitalize your professionalism awareness. Log in and click the Professionalism Webinar Recordings Available to Members link to reveal a vast catalog of valuable actuarial knowledge.

# When Objectivity Is the Objective

**BY KAREN TERRY**

THE ACADEMY'S WORK on behalf of the public and the U.S. actuarial profession requires its multitude of volunteers and interested parties to produce objective and independent analysis. Each of us must maintain the highest level of professional objectivity when performing our Academy work so that we continue to provide unbiased, reliable information for policymakers and others who need actuarial insight to inform their decisions regarding U.S. fiscal and societal challenges.



To make this a reality, the Academy has steadfastly developed, and rigorously protects, a culture of objectivity by utilizing processes and controls to govern all its work. Just one of these measures, but an essential one, is the annual requirement for *every* Academy volunteer to sign a conflict of interest (COI) acknowledgment and continuing education (CE) attestation. Respectively, this affirms that every volunteer has read and is obligated to adhere to the COI policy, and has met the annual CE requirements as set forth in the U.S. Qualification Standards.

This requirement applies to all volunteers, including members of the board of directors, and all Academy committee, subcommittee, task force, or other group members. It also applies to the members of the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline. Plus, there is a similar requirement that applies to any interested party admitted to Academy groups.

Volunteers are instructed to carefully consider the information contained in *Conflicts of Interest When Doing Volunteer Work*, a 2011 discussion paper released by Council on Professionalism. It is a helpful volunteer resource containing practical considerations of conflicts that may arise and how to address them.

If you are an Academy volunteer or interested party, you should have received an email at the end of January calling you to respond to the required attestation. Please promptly review and comply with it.

I hope that you, as do I, get a sense of satisfaction from this acknowledgment, which is key to demonstrating that the work we do through the Academy is objective and unbiased. With the Academy, unlike many other organizations to which we belong, 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.

As is our policy, volunteers who don't acknowledge the Academy's COI policy and attest that they have completed the required CE will not be permitted to continue serving as an Academy volunteer.

Be sure to check the March/April *Contingencies* for a Commentary from Cecil Bykerk on the importance and impact of the Academy's commitment to objectivity and independence.

**KAREN TERRY, a fellow of the Casualty Actuarial Society and a member of the Academy, is the Academy's vice president for professionalism issues.**

# Focusing on the MAAA Credential

DURING THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) fall national meeting in December, the NAIC Joint Qualified Actuary Subgroup requested input on "a uniform definition of 'qualified actuary' for life, health and property/casualty appointed actuaries signing prescribed NAIC Statements of Actuarial Opinion, identifying any differences that should remain between lines of business."

In letters and open calls with the subgroup, the Academy has stated its support for retention of the current definition of qualified actuary that is contained in the life, health, and property/casualty instructions, noting that concerns about discipline or matters of qualification that have been raised by some regulators won't be addressed by changing the definition.

In response to the subgroup's request, Academy President Tom Terry sent a letter on Jan. 21 proposing two slightly different but uniform definitions. Terry reiterated the Academy's strong belief that the most uniform definition of a qualified actuary should rely in every instance on membership in the Academy. This approach is efficient and appropriate because the Academy admits to membership only those actuaries who already have attained the basic education requirements of the U.S. Qualification Standards through other organizations, including the other U.S.-based actuarial organizations.

As the only U.S. actuarial organization for actuaries who seek to practice in the United States, the Academy is focused on U.S. public policy and professionalism. Its core mission is centered on the needs of the U.S. public and of U.S. policymakers.

The Academy and the NAIC have a shared goal of effective insurance regulation and oversight in the United States. This common ground is the foundation for an important ongoing dialogue about matters of importance to the public: actuarial practice and conduct standards, actuarial Qualification Standards, and actuarial discipline processes. The MAAA is the U.S. national actuarial credential. As such, it is the one credential that manifests the critical linkage between actuaries practicing in the United States and the ongoing discussion about matters of practice and professionalism that is occurring between the NAIC and the Academy. It is a credential that reflects the goal of effective insurance regulation that is shared by both organizations.

# Mapping the Progress of Flood Insurance Reform

EVEN 18 MONTHS after the passage of the Biggert-Waters Flood Insurance Reform Act of 2012, which made comprehensive changes to the National Flood Insurance Program (NFIP), the status of flood insurance reform remains fluid.

The $1.1 trillion omnibus appropriations bill passed by the Senate the same day the Academy held its webinar "Eighteen Months After Biggert-Waters: Is the NFIP Staying Afloat?" included provisions to delay by a year some of the flood insurance premium increases mandated by Biggert-Waters and scheduled to be implemented later this year.

And the Homeowner Flood Insurance Affordability Act, introduced by Sen. Robert Menendez (D-N.J.) and currently pending in the Senate, would further delay premium increases until the NFIP current flood mapping approach is sufficiently revised (up to four years).

The latest in the Academy's lunchtime guest webinar series, the Jan. 16 webinar was moderated by Stuart Mathewson, former chairperson of the Academy's Flood Subcommittee (now part of its Natural Catastrophe Subcommittee), and featured presentations by Thomas Hayes and D. Andrew Neal, actuaries with the Federal Insurance and Mitigation Administration of the Federal Emergency Management System.

Hayes and Neal provided an overview of the development of the NFIP, including aspects that were changed by the passage of Biggert-Waters. Created in 1968, the NFIP offers property owners in participating communities the opportunity to purchase flood insurance. For a community to be eligible, its floodplain management regulations must meet or exceed NFIP standards. As the result of the passage of Biggert-Walters, subsidized rates for most properties insured under the NFIP are being adjusted to more accurately reflect risks.

Hayes and Neal detailed the assumptions and methods used in the NFIP's rate setting and discussed some of the challenges in creating NFIP rating models.

With floods, Hayes told webinar attendees, there is no stable pattern of losses on which to draw.

"It's simply impossible to use past history of the program to price this product," Hayes said. "Katrina dwarfed all our other loss years."

If the program had set rates based on its loss history up to 2005, the year Hurricane Katrina hit, Neal agreed, "we'd have grossly underrated our risk."

Hayes and Neal also reported on ongoing federal studies to assess the historical capacity of private-sector insurance, reinsurance, capital, and financial markets to take on flooding risk in general and in particular to assume portions of the insurance risk of the NFIP. Another study under way is a cost-benefit analysis of the ability of the financial markets to lessen the financial consequences of flood loss volatility and the NFIP's historical reliance on the U.S. Treasury.

In the case of privatization, the panelists said, it is important to ensure that ongoing critical functions of the NFIP, such as floodplain management, the identification of flood risks, and the sponsorship of scientific studies in the field, don't fall by the wayside.

Responding to the developing news about provisions in the omnibus appropriations bill, Mathewson told webinar attendees that the Academy was drafting comments to send to Congress on the implications of delaying premium increases. That letter was sent on Jan. 24.

# COPLFR Publishes 2013 Practice Note

JUST BEFORE THE TURN OF THE YEAR, the Academy's Committee on Property and Liability Financial Reporting (COPLFR) released its 2013 practice note on statements of actuarial opinion on property/casualty loss reserves.

The annual publication contains updated regulatory guidance from the Casualty Actuarial and Statistical Task Force (CASTF) of the National Association of Commissioners (NAIC). Specific substantive changes (indicated by highlighted text in the practice note) include:

- Revised NAIC statement of actuarial opinion instructions related to data-testing requirements for title insurance companies;
- Guidance from CASTF clarifying regulatory expectations related to information provided in the actuarial report.

## CASUALTY BRIEFS

- **Rudy Kopcke**, manager for Ernst & Young in Chicago, **Howard Kunst**, chief actuary for CoreLogic in Dallas, and **Joanne Briody** in New York have joined the Natural Catastrophe Subcommittee.

## PROFESSIONALISM BRIEFS

- **Jennifer Gillespie**, vice president and actuary for underwriting at Blue Cross Blue Shield of Minnesota in St. Paul, **Patricia Matson**, vice president at Massachusetts Mutual Life Insurance Co. in Springfield, Mass., and **Karen Smith** with Nova Pension Valuations in Houston, have joined the Council on Professionalism.

# Disability Operating Instructions

THE ACADEMY'S Individual Disability Table Work Group on Jan. 17 published detailed operating instructions for the revised disability table that the work group had developed and presented to the National Association of Insurance Commissioners (NAIC) in December. The workbook was developed to help actuaries calculate individual disability income (IDI) claim costs, net premiums, active life reserves, and disabled life reserves using the 2013 IDI Valuation Table and to compare these values with those based on the 85 Commissioners Individual Disability Tables.

A week later, on Jan. 24, the NAIC exposed the work group's proposed disability table, final instructions for utilizing the table, and its final report, which includes an actuarial guideline and proposed changes to the Health Insurance Reserves Model Regulation.

In its final report, the work group warns that there could be modifications to the workbook as the 2013 IDI valuation table is revised, additional functionality is added, or corrections, if any, are made.

**HEALTH BRIEFS**

- **Julia Lerche**, senior consulting actuary for Wakely Consulting Group in Clearwater, Fla., has joined the Actuarial Value Subgroup and the Rate Review Practice Note Work Group.

# Academy Comments on Rate Review Template

IN JANUARY, the Academy's Rate Review Practice Note Work Group submitted comments to the Center for Consumer Information and Insurance Oversight (CCIIO) on a second draft of revisions to the Unified Rate Review Template (URRT) and the actuarial memorandum instructions. Earlier in January, the work group offered technical comments to CCIIO on the initial list of proposed changes to the URRT for quarterly 2014 and annual 2015 filings.

**HEALTH BRIEFS**

- **Tom Keller**, senior partner for Magnum Actuarial Group in Biltmore Lake, N.C., has joined the Actuarial Value Subgroup.
- **Barb Klever**, actuary for Blue Cross Blue Shield Association in Chicago, has joined the Federal Health Committee.

# ASB Action

THE ACTUARIAL STANDARDS BOARD (ASB) recently approved for exposure a draft standard, *Medicaid Managed-Care Capitation Rate Development and Certification*, to provide guidance to actuaries when they perform professional services related to Medicaid and Children's Health Insurance Program (CHIP or Title XXI) managed-care capitation rates, including a certification on behalf of a state to meet the requirements of 42 CFR 438.6(c).

The comment deadline for the exposure draft is May 15.

The ASB also adopted a new actuarial standard of practice (ASOP) on life settlements mortality. ASOP No. 48, *Life Settlements Mortality*, provides guidance to actuaries reporting on or evaluating mortality experience with respect to life settlements or developing, analyzing, or using mortality assumptions with respect to life settlements. The new standard becomes effective on April 30.

Finally, the ASB has adopted a revised version of ASOP No. 25, *Credibility Procedures*, which will become effective on May 1. The first exposure draft of the revised standard was issued in September 2012 and received 20 comment letters. A second exposure draft issued in June 2013 received nine comment letters. In addition to clarifying language in several sections, the wording of the scope section was revised to keep it appropriately focused. A summary of substantive issues can be found in Appendix 2 of the standard.

**The Latest Findings on National Health Spending From CMS**
*Feb. 6, 2014/Noon–1:00 p.m. Eastern*
*Registration is open to everyone.*
*Register online now.*

**Systemic Risk Monitoring at the OFR**
*Feb. 21, 2014/Noon–1:00 p.m. Eastern*
*Registration is open to everyone.*
*Register online now.*

# Recapping the Fall NAIC Meeting

HOT TOPICS from the fall national meeting of the National Association of Insurance Commissioners (NAIC) got a second look in the Life Practice Council's 28th post-NAIC webinar on Jan. 24.

Leading off, Mike Boerner, director of the Texas Department of Insurance and chairperson of the NAIC's Life Actuarial Task (LATF), summarized actions taken by the task force at the fall meeting. Several tasks need to be completed before the Valuation Manual (VM) and the Standard Valuation Law can become effective. LATF determined at the fall meeting that no portion of Model 808, "Standard Nonforfeiture Law for Life Insurance," should be an accreditation standard. LATF also exposed for comment draft changes to the 2014 life and fraternal actuarial opinion instructions for appointed actuaries reporting to boards of directors or other appropriate committees.

Mark Birdsall, chief actuary of the Kansas Insurance Department and chair of NAIC's Life Risk-Based Capital Work Group, provided an update on phase two of the Kansas VM-22 field test. The primary goals of the field test include:

- Testing the VM-22 Floor Reserve calculations and testing the practicality of the new Representative Scenarios Method for calculating the Modeled Reserve for VM-22;
- Finding an appropriate reserve level for non-variable annuities with guaranteed lifetime income benefits.

A portion of the webinar was given over to a description of the Rector & Associates report to the NAIC's Principle-Based Reserving (PBR) Implementation (EX) Task Force. Rich Daillak, chairperson of the Academy's Life Reinsurance Work Group, described elements from the report, which was designed to provide a high-level framework for regulating insurer-owned captives used to finance the XXX and AXXX reserves. The report proposes a yet-to-be-determined "actuarial standard" that will govern the minimum amount of primary assets. (It should not be confused with an actuarial standard of practice, which is promulgated by the Actuarial Standards Board. See story below.) After task force discussion of the report, Rector was asked to focus on approaches to this "actuarial standard" that effectively eliminate the financial incentive for further financing captive transactions once PBR becomes effective.

Daillak also told webinar attendees about the long-awaited FIO Modernization Report, which recommended that states develop a uniform and transparent solvency oversight regime for the transfer of risk to reinsurance captives.

Dave Neve, chairperson of the Academy's Financial Soundness/Risk Management Committee, served as the webinar's moderator.

# Academy Comments on Rector Report

IN A JAN. 15 letter to the Principle-based Reserving Implementation (EX) Task Force of the National Association of Insurance Commissioners (NAIC), the Academy's Principle-Based Reserves Strategy Subgroup requested clarification in the use of the term "actuarial standard" in a report on captives and special-purpose vehicles from Rector & Associates to the task force. Because of potential confusion with actuarial standards of practice (ASOPs) promulgated by the Actuarial Standards Board, the subgroup recommended that the term "actuarial method" be substituted for "actuarial standard" as the NAIC continues its discussion of the report.

## LIFE BRIEFS

- **Elizabeth Rogalin**, vice president and chief actuary for retirement solutions at Guardian Life Insurance Co. in New York, is the new chairperson of the Life Financial Reporting Committee.
- **Mike Yanacheak**, actuarial administrator for the Iowa Insurance Division in Des Moines, Iowa, has joined the Annuity Reserves Work Group.

# A Look at Separate Account Risk

THE LIFE PRACTICE COUNCIL'S Separate Account Products Work Group on Jan. 10 commented on a November exposure draft from the Separate Account Risk (E) Working Group of the National Association of Insurance Commissioners. In its comments, the work group discussed guidelines for business-owned life insurance and company-owned life insurance and regulation requirements for individual products.

# Measuring Pension Liabilities

THE ACADEMY'S senior pension fellow, Donald Fuerst, sent a letter on Jan. 8 to members of Congress who had requested in a September letter to the Securities and Exchange Commission and the Financial Accounting Standards Board (FASB) that generally accepted accounting principles (GAAP) be consistent with the pension funding rules in the Moving Ahead for Progress in the 21st Century Act (MAP-21).

While using discount rates derived from 25-year average interest rates may help stabilize required contributions, Fuerst stated in the letter, the rates do not provide a meaningful measurement of a pension plan's liabilities for financial reporting and would not be consistent with FASB's conceptual framework.

**PENSION BRIEFS**

- **Josh Shapiro**, deputy director for the National Coordinating Committee for Multiemployer Plans in Washington, is the new vice chairperson of the Multiemployer Plans Subcommittee.
- **Vanessa Soskind**, principal for Mercer in Tampa, Fla., has joined the Pension Accounting Committee.

# EA Renewal Form Available Online

THE JOINT BOARD for the Enrollment of Actuaries has posted on the IRS website the form for enrolled actuaries (EAs) seeking to apply for renewal of enrollment for the 2014-2017 enrollment cycle. As with the 2011 renewals, EAs will not receive the application for renewal form by mail or by email. Instead, the application (Form 5434A) is available for download from the IRS website.

The fee to renew enrollment is $250, and EAs must have earned all required continuing professional education credit hours by Dec. 31, 2013. Applications for renewal of enrollment must be postmarked on or before March 3 to be considered timely.

For this renewal period, actuaries can also submit their application electronically through Pay.gov. In the event you are unable to access or submit your form electronically, you can download and submit your renewal form by regular mail by sending it to Internal Revenue Service, P.O. Box 301510, Los Angeles, Calif., 90030-1510. To renew by overnight mail, send your renewal to Internal Revenue Service, Box 301510, 19220 Normandie Avenue, Suite B, Torrance, Calif., 90502.

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pension issues, told briefing attendees. "In the end, the goal is to facilitate retirement security for all Americans." Also speaking at the briefing were Donald Fuerst, the Academy's senior pension fellow, and Cindy Levering, a member of the Pension Practice Council's Forward Thinking Task Force.

As a first step, the Academy has published a monograph, *Retirement for the AGES: Building Enduring Retirement-Income Systems*, developed by the Forward Thinking Task Force. The monograph, which was unveiled at the briefing, describes important attributes for sustainable retirement plans and offers suggestions for areas of improvement, including allowing smaller plans to group together to benefit from economies of scale, clearly defining conflicts of interest, and incorporating elements such as self-adjusting mechanisms to respond to major economic changes.

The Academy initiative comes in response to the gradual shift from defined benefit retirement plans to defined contribution plans, which place more retirement risk on employees. To adapt to this change, according to the Academy monograph, policymakers need to retool rules, regulations, and practices to help align stakeholders' roles with their skills and competencies, establish good governance structures, and encourage efficiencies in plans to lower costs. These will help sustain current retirement plans and potentially increase retirement coverage for more Americans.

The release of the monograph is just the first step. In April, the Academy will host a forum on retirement policy and release scorecards that will grade several pension plans and public-policy proposals on how well they meet the Retirement for the AGES principles.

"We're suggesting a way to measure how sustainable a retirement system is in the future. Scorecards will rate the systems on our principles," said Fuerst.

The Retirement for the AGES initiative, which builds on work done by the Society of Actuaries through its Retirement 20/20 initiative, doesn't address the concepts of adequacy and universal coverage. These are two major policy issues that still must be addressed by elected officials.

# Insurance Contracts Webinar

IN A JAN. 2 webinar sponsored by the Academy's Risk Management and Financial Reporting Council, eight seasoned actuaries discussed separate draft standards on insurance contracts that were released by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in June 2013.

Tom Herget, who moderated the webinar, reported on the responses of various key stakeholders from around the world to the two exposure drafts, including comments the Academy submitted to the IASB and the FASB on Oct. 24.

The IASB has received about 180 comment letters, from actuaries, accountants, companies, regulators, industry groups, investors, and analysts. The FASB exposure draft has garnered around 150 comments from life and property/casualty (P/C) companies, reinsurers, regulators, accounting firms, and analysts.

Predominant themes in the response to the IASB draft from those diverse groups included the suggestion that other comprehensive income (OCI) be optional, that the approach for mirroring and asset-dependent cash flows is either flawed or too complicated to work in practice, that the exposure draft doesn't reflect the business model and will create volatility, and that the disclosure of confidence interval percentage isn't useful. Commenters also expressed concern about discounting for very long duration cash flows and resulting volatility.

In a similar review of comments to the FASB exposure draft, Herget focused on those from life insurers and those from P/C insurers. Life insurers indicated that:

- The new proposal is more complex and difficult to understand;
- The cost of compliance isn't justified if there is no convergence between the IASB and FASB standards;
- The method for determining discount rates needs to be clarified;
- The contractual service margin should be unlocked;
- The portfolio needs to be better defined.

The responses of P/C insurers were more basic, Herget said: They don't want any change, and they don't want any discounting of liabilities.

The Academy has been generally supportive of efforts to bring the two documents into convergence, said William Hines, vice president of the Academy's Risk Management and Financial Reporting Council and former chairperson of its Financial Reporting Committee, but the prospect of such a conjunction remains cloudy.

"I think that the boards are going to move forward separately on this project," said Hines. "I don't think they will come to an agreement—it's a long shot."

Hines said he expected the IASB to adopt a standard within the next five years. But without the prospect of convergence, he noted, FASB will most likely concentrate instead on targeted changes to the existing U.S. GAAP (generally accepted accounting principles).

## RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Alan Pakula**, consulting actuary for Huggins Actuarial Services in Media, Pa., and **Aaron Halpert**, consulting actuary for AMH Advisory in Monsey, N.Y., have joined the ORSA Subgroup.
- **Elizabeth Rogalin**, vice president and chief actuary for retirement solutions at Guardian Life Insurance Co. in New York, has joined the Risk Management and Financial Reporting Council and the Financial Reporting Committee.

# Classifying and Measuring Financial Instruments

WARNING OF THE POTENTIAL for accounting discrepancies, the Academy's Financial Reporting Committee commented on Jan. 16 on a joint project on classification and measurement of financial instruments that is being undertaken by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

Because the interaction between assets and liabilities is critical in the management and performance of long-duration insurance contracts, the committee wrote, avoiding mismatches between accounting for liabilities and associated assets is essential. The committee expressed concern that certain proposals contained within the FASB and IASB exposure drafts, when viewed in conjunction with the insurance contracts project, could result in accounting mismatches that would reduce the relevance and representational faithfulness of the financial statements.

# Academy Comments to IAA on Basic Capital Requirements

THE ACADEMY'S SOLVENCY COMMITTEE submitted detailed comments Jan. 16 to the International Actuarial Association on a proposal from the International Association of Insurance Supervisors (IAIS) to create certain basic capital requirements (BCR) for global systematically important insurers (G-SIIs). Concerned that the proposal could be applied more generally, the committee wrote that the IAIS needs to make it clear that its proposal is designed only for G-SIIs. While the BCR can inform the development of the global insurance capital standard, the committee wrote, it should not become that standard. The committee also raised concerns about how the BCR would be calibrated, cautioning that a simple factor approach wouldn't be a precise measure of solvency.

with the Committee on Qualifications, Committee on Professional Responsibility, Life and Health Qualifications Seminar Committee, Committee on Actuarial Public Service, and Joint Committee on the Code of Professional Conduct.

The COP promotes professionalism by sponsoring affordable and topical webinars each quarter. In 2014, webinar topics will include the newly revised Precept 13 discussion paper and, because of its universal importance, another examination of Actuarial Standard of Practice (ASOP) No. 41, *Actuarial Communications*. The COP also plans to hold webinars designed exclusively for state regulators to provide them with a forum for discussing professionalism matters that concern them.

This year, the COP will be reviewing and updating the Applicability Guidelines for ASOPs to enhance usability and comprehension of this dynamic professionalism tool. The guidelines, a long-standing publication of the COP, are a handy point of reference for actuaries in all areas of practice.

In addition to webinars tailored to regulatory issues, the COP will continue its presence at NAIC meetings to enhance and improve relations with state regulators in order to understand and better address their professionalism needs.

### Casualty Practice Council

With the terrorism risk insurance program scheduled to expire at the end of 2014, the Casualty Practice Council (CPC) plans to offer members of Congress information addressing the actuarial implications of changing or terminating the program. Enacted by Congress after the Sept. 11 terrorist attacks, the program helped stabilize the insurance market by creating a federal reinsurance backstop for losses of over $100 million as the result of a terrorist attack.

The CPC also plans to follow potential legislative modifications to the Biggert-Waters Flood Insurance Reform Act of 2012, natural disaster-related bills, and all-perils legislative efforts at both the state and federal levels. It is examining the effective use of property/casualty (P/C) actuarial expertise within Own Risk and Solvency Assessment (ORSA), and will evaluate under new streamlined procedures the qualifications of Academy members who are not members of the Casualty Actuarial Society and who seek the CPC's approval to sign NAIC Annual Statement Opinions on loss reserves.

The P/C Risk-Based Capital Committee will continue to assist the NAIC in its work on operational risk in the context of P/C risk-based capital. The Committee on Property/Liability Financial Reporting will present educational opportunities to actuaries who sign NAIC opinions by publishing its annual *Statements of Actuarial Opinion on Property and Casualty Loss Reserves Practice Note* and *Property/Casualty Loss Reserve Law Manual* and sponsoring its annual seminar on property/casualty effective loss reserve opinions.

### Health Practice Council

As the intense public scrutiny of the ACA continues, the Health Practice Council (HPC) and its work groups will produce input on the law's implementation. This year's emphasis will be working with the Centers for Medicare & Medicaid Services, the Center for Consumer Information and Insurance Oversight, the NAIC, and state regulators as the state health care exchanges begin operations. Much of the focus will be on the following issues: health insurance market reforms, benefit and payment parameters, rate filings, actuarial value, exchanges, and risk-sharing mechanisms.

The HPC plans to initiate activities that will raise the profile of long-term care: specifically working with policymakers at the state and national levels and other experts to identify and evaluate policy options to ensure access and affordability of long-term care services for various segments of the population. Although the ACA includes provisions that have improved the financial position of Medicare, more needs to be done to ensure the program's sustainability. As such, the HPC and its Medicare Steering Committee will continue to analyze Medicare and offer input to policymakers on the options for reforming the program and ensuring its financial sustainability.

Additionally, the HPC continues to take active steps to position the profession as an objective technical expert in the debate over health care costs—a debate that already has started and is expected to be a long-term process. The HPC is working on projects that examine delivery and payment-system reform, disease management and prevention initiatives, and Medicare and Medicaid reform and the potential implications for sustaining slower health care cost growth. The HPC will continue to expand awareness of its public statements and positions on specific issues by tailoring the information to different audiences, including Academy members, the public, policymakers, and the media. The HPC also will continue to host webinars to keep members informed about relevant issues and related HPC activity.

### Life Practice Council

The Life Practice Council (LPC) will continue to support the NAIC on the implementation, legislative adoption, and review and updating process of the SVL and accompanying VM for principle-based reserving for life insurance products. The NAIC adopted both the SVL and VM in December 2012, and seven states passed enacting legislation last year.

The LPC also will address additional issues at the NAIC related to the implementation of the SVL and VM, including development of an aggregate margin, development of a practical example for the pre-tax investment maintenance reserve, and completion of the VM-20 practice note. There are other principle-based approaches under development, including principle-based annuity reserve requirements in VM-22.

As the solvency modernization initiative (SMI) project moves forward at the NAIC, the LPC will support the implementation of the NAIC SMI Task Force's recommendations by commenting on the proposed operational risk charge, the C1 component, and the C3 Phase I component of the life risk-based capital formula.

The LPC will continue to assist the NAIC on product-related issues, including nonforfeiture modernization, life and annuity disclosure, and new product types such as contingent deferred annuities. The LPC also will work with the Academy's Pension Practice Council, Lifetime Income Risk Joint Task Force, and Public Interest Committee to promote long-term solutions in the areas of lifetime income and retirement security.

### Pension Practice Council

The Pension Practice Council (PPC) got off to a fast start this year with the launch of the Retirement for the AGES initiative that highlights

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EXECUTIVE OFFICE
The American Academy of Actuaries
1850 M Street NW
Suite 300
Washington, DC 20036
Phone 202-223-8196
Fax 202-872-1948
www.actuary.org



# LATF Taps Academy at Fall NAIC Meeting

AT THE FALL MEETING of the National Association of Insurance Commissioners (NAIC), the Life Actuarial Task Force (LATF) sought assistance related to principle-based reserving (PBR) from the Academy's Committee on Qualifications (CoQ).

LATF requested that the CoQ make a recommendation to the Principle-Based Reserving Implementation (EX) Task Force as to whether it should require actuarial certification for each actuarial responsibility relating to PBR (e.g., NAIC staff, regulators, appointed actuaries, etc.) while considering guidance developed by the Appointed Actuary (A/B/C) Subgroup.

The second request from LATF was for a determination of whether specific continuing education requirements should be established for PBR actuaries and whether those should be regulatory requirements or actuarial professional requirements.

## Priorities, continued from Page 10

ways to strengthen the U.S. retirement-income system by introducing a framework to assess retirement plans and reform proposals. The PPC released its monograph *Retirement for the AGES* and held a Jan. 17 Capitol Hill briefing on the initiative (see story, Page 1). The PPC plans an April forum on the topic with retirement-policy and retirement-system stakeholders and the release of Academy scorecards on specific retirement plans and major policy proposals.

Other priorities include developing online tools such as the longevity calculator, which will highlight lifetime income risk and allow users to input their age, gender, and health to calculate their projected life span as a distribution and not a single point in time. Also on tap is an improved version of the Social Security Game, which in its new iteration will provide an animated and interactive means to educate the public on Social Security's long-term solvency challenge. The PPC also will continue to educate Capitol Hill on the importance of Social Security's long-term sustainability through publications such as a public policy monograph on Social Security reform options.

The PPC will continue to take the lead on pension-funding issues, including:

- Focusing on public pension plans by publishing an issue brief on objectives and principles of funding policy and a practice note on funding policy and disclosure that builds on the principles laid out in earlier PPC work on pension funding and measuring pension obligations.
- Commenting on issues surrounding the multiemployer pension system. Several key funding provisions will expire at the end of 2014, and Congress has been assessing proposals to reform the multiemployer pension system. The potential consequences of allowing these provisions to expire and the effects of the proposals put forward by Congress will be the primary focus of the Multiemployer Plans Subcommittee this year.
- Updating the seven fundamental principles for guiding pension reform of single-employer plans in light of several years of experience under the Pension Protection Act (PPA) of 2006 and suggesting modifications to the current funding regime. This effort would update the committee's principles of single-employer funding issued in 2005 prior to passage of the PPA.

### Risk Management and Financial Reporting Council

The Financial Reporting Committee will review forthcoming International Actuarial Association exposures on insurance accounting issues related to international financial reporting standards. The committee also will monitor and respond to changes resulting from the joint International Accounting Standards Board and Financial Accounting Standards Board insurance contracts project.

The ORSA Subgroup will develop a white paper on how a regulator could use ORSA as part of its supervisory process. The subgroup will look into developing another white paper on the role of the actuary in the ORSA process. It continues to monitor ORSA developments and respond to ORSA guidance.

The Solvency Committee will continue responding to insurance regulation proposals from entities such as the International Association of Insurance Supervisors and the NAIC. The Financial Regulatory Reform Task Force will monitor and, where appropriate, respond to proposals that may affect the regulation of insurance by federal authorities. Finally, the task force will engage in efforts affecting the systemic risk regulation of insurance entities at whatever level they occur.