Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

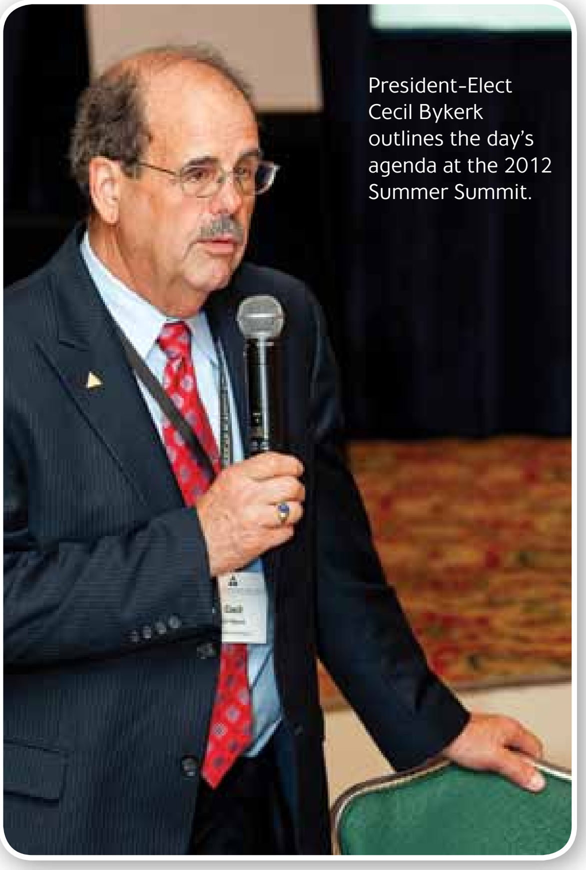
Lifetime Income and Health Care Spending Headline Summer Summit

MORE THAN 60 LEADERS of the actuarial profession gathered at the Academy's annual Summer Summit July 16 in Washington to discuss how the Academy can utilize its actuarial expertise and critical perspective to address rising heath care costs and the challenges associated with managing lifetime income.

The topics for this year's Summer Summit were set by Academy President-Elect Cecil Bykerk and were intended to help determine "whether, why, and how the Academy should focus its efforts and resources to elevate these issues." The actuarial leaders met in breakout sessions that were informed by presentations from three respected economists.

David Blake, a professor of pension economics at City University's Cass Business School in London, kicked off the morning session by sharing his thoughts on the critical role annuities play in retirement income. (See Actuaries Look at Ways to Address Longevity Risk on Page 3 for more about the morning session.)

The afternoon session featured two speakers—Sherry Glied, assistant secretary of planning and evaluation at the Department of Health and Human Services, and Mark McClellan, director of the Engelberg Center for Health Care Reform at the Brookings Institution—who looked at next steps in health care reform and outlined ways to contain health care costs. (See Controlling Health Care Costs on Page 5 for more about the afternoon session.)



President-Elect Cecil Bykerk outlines the day's agenda at the 2012 Summer Summit.

Online Voting for Regular Director Opens

THE 2012 ONLINE ELECTION for three open regular director positions on the Academy's board of directors opened on July 23. With one of the elections (for the position open to any practice area) featuring a competitive race among three candidates, more than 1,000 members had already cast their votes in the first week of balloting.

Each of the candidates for regular director has a distinguished and lengthy record of service to the Academy. Be sure to recognize the candidates' commitment to the profession and the public by casting your ballot for regular director; the election closes at 5 p.m. EDT on Aug. 17. The candidates for regular director are:

For regular director, term expiring 2015 (Health) (vote for one)

- Shari Westerfield

For regular director, term expiring 2015 (Health) (vote for one)

- Katie Campbell

For regular director, term expiring 2015 (any practice area) (vote for one)

- Godfrey Perrott
- Henry Siegel
- D. Joeff Williams

More information on the candidates, including a bio and their responses to member-submitted questions about organization mergers, can be found online at the Academy Board Election Center.

All Academy members as of July 20, 2012, are eligible

SEE ACADEMY ELECTIONS, **PAGE 10**

JULY

12–15 NCOIL summer meeting, Burlington, Vt.

16 Summer Summit, Washington (Academy)

23 Online voting begins for open regular director positions on the Academy Board

AUGUST

11–14 NAIC summer meeting, Atlanta

15 Executive Committee meeting, Washington

17 Online voting ends for open regular director positions on the Academy Board at 5 p.m. EDT

SEPTEMBER

6–7 Casualty Loss Reserve Seminar (Academy, CAS, CCA)

11–12 Life PBR seminar: *Test Drive the New VM–20 Principles*, Los Angeles (Academy, SOA)

13 Professionalism webinar: *Precept 13 of the Code* (Academy, ASPPA, CAS, CCA, SOA)

OCTOBER

5–6 NAAC meeting, Mexico City

10 CUSP meeting, Washington

11 Board of Directors meeting, Washington

14–17 SOA meeting, Washington

15 Academy Annual Meeting, Washington

21–24 CCA annual meeting, Boca Raton, Fla.

28–31 ASPPA annual meeting, National Harbor, Md.

NOVEMBER

8–9 Seminar on Effective Loss Reserve Opinions, Baltimore (Academy)

11–14 CAS annual meeting, Lake Buena Vista, Fla.

12–15 Life and Health Qualifications Seminar (Academy, SOA)

15–18 IAA meeting, Nassau, Bahamas

15–18 NCOIL annual meeting, Clear Point, Ala.

29–Dec. 2 NAIC fall meeting, Washington

DECEMBER

5 Executive Committee meeting, Washington

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

Annual Meeting Registration Open

ALL ACADEMY MEMBERS are invited to attend the Academy's Annual Meeting and Awards Luncheon on Oct. 15 at the Gaylord National Resort Hotel and Convention Center in National Harbor, Md. The keynote speaker, Stu Rothenberg, a political analyst and the editor of the *Rothenberg Political Report*, will provide his take on the upcoming national elections and how their results will play out in policy debates on Capitol Hill.

The meeting also will feature the ceremonial presidential transition as President-Elect Cecil Bykerk succeeds outgoing President Dave Sandberg; the introduction of new leadership on the Academy's Board of Directors; and presentation of the Academy's Jarvis Farley Service Award, Robert J. Myers Public Service Award, and the awards for Outstanding Volunteerism.

This year's meeting is being held in conjunction with the Society of Actuaries (SOA) annual meeting. Registration for the Academy Annual Meeting and Luncheon is included in the registration fee for the SOA

annual meeting. Academy members not attending the SOA meeting can purchase tickets for the luncheon online. Click here to learn more and to register.

IN THE NEWS

HEALTH

Academy Long-Term Care Committee member **Steve Schoonveld**'s July 18 presentation to the National Conference of Insurance Legislators was featured in a July 23 *LifeHealthPro* article, "'Refine' Long-Term Care Insurance, Actuary Says."

The June 29 issue of *Insurance Journal* recapped the Academy's perspective on the Supreme Court ruling on the Affordable Care Act and quoted **Senior Health Fellow Cori Uccello** in "Actuaries Say Individual Mandate Key to Viable Health Insurance Market."

In "What Now for Health Care Reform?" Pacific Institute CEO Sally Pipes cited a 2009 Academy study to make the case for health savings accounts in the June 29 issue of the *Orange County Register*. The same Academy study was referenced in a similar piece by Joshua Archambault, director of health care policy at the Pioneer Institute. "The State Is Ignoring Proven Care Options" appeared in the July 2012 issue of *Healthcare News*.

LIFE

The Academy's mortality assumption-setting proposal was the subject of some controversy in a July 20 article in *LifeHealthPro*, "No One Said Getting to PBR Would Be Easy."

PENSIONS

When Congress passed pension funding stabilization legislation, several reporters called on the Academy for analysis. *The New York Times* quoted **Senior Academy Pension Fellow Don Fuerst**—and included his photo—in its June 29 article, "Looking for Cash, Congress Finds Some in a Corporate Pension Rule Tweak." The Associated Press, whose stories run on a nationwide syndicate, also quoted Fuerst in its July 9 article "New Law Give U.S. Companies a Break on Pensions." The AP story was picked up by newspapers across the country.

In a July 23 *LifeHealthPro* article, "More State Pension Plans Cutting Assumed Return Rates," Fuerst said that new pension accounting rules will put more rigor into rate assumptions, "and that's good."

CASUALTY

Washington Monthly, a prestigious policy journal, used excerpts from the Academy's 2011 monograph *The National Flood Insurance Program: Past, Present … and Future?* to describe the program's origins and purpose in a June 27 article on federal flood insurance.

An article from the current issue of *Contingencies* that exams the longevity of MLB and NFL players is the basis of "Cubs Live Longer Than Bears; Both Outlive Fans" in the July 19 issue of the *Chicago Daily Herald*.

Actuaries Look at Ways to Address Longevity Risk

THE RISK OF LIVING LONGER THAN EXPECTED and outliving retirement savings has been on the Academy's radar screen for a couple of years now, said Academy 2013 President-Elect Tom Terry, who has been leading the Public Interest Committee's work on lifetime income, as he introduced the first speaker at the Summer Summit.

"This morning's speaker is here to stir the pot," Terry added. "David Blake hails from the U.K., where they face the same sorts of problems we do. He has some provocative ideas about what's working and what's not—and what we might try in this country. David's going to challenge us to better understand the problems we face so we can identify possible ways to move forward."

Blake, a professor of pension economics and the director of the Pensions Institute at City University's Cass Business School in London, was invited to speak at the Summer Summit as part of the Academy's lifetime income initiative to elevate the dialogue about how to address longevity risk and the challenge of assuring lifetime income for retirees. Blake's talk focused on the vital role that annuities play in managing longevity risk and why they are so difficult to provide. He began by asserting that managing the systematic nature of longevity risk requires annuities with government-backed longevity bonds.

Interest rates, inflation, investments, and longevity risk all play a role in retirement savings, Blake explained. Longevity risk, he added, is driven by three underlying risks:

- Modeling risk, in which probability distribution is based on limited data and therefore skewed;
- Trend risk, in which advances in health care and socioeconomic factors increase longevity; and
- Idiosyncratic risk, which is reduced only when the risk pool is broadened.

The solutions for longevity risk fall into three categories, Blake said:

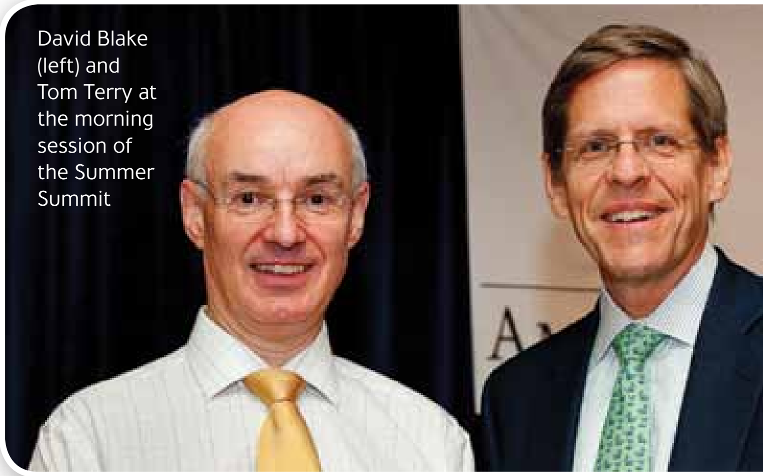
- Indexing retirement age to increases in life expectancy;
- Pension buyouts or buy-ins; and
- New instruments to hedge longevity risk such as longevity swaps or longevity bonds.

"No insurance company can hedge a systematic risk like longevity," Blake said. "And annuity providers don't want to take any risks at all—on investments or interest."

Retirement products used today won't fill the needs of tomorrow's retirees, Blake added. The supply of long-term risk-free bonds is insufficient, and—as demonstrated by the global financial crisis—corporate bonds that mature in more than 10 years present too great a credit risk.

For consumers, Blake noted, it is not a question of if they will outlive their retirement savings but when.

This problem could be addressed with government-issued longevity bonds, Blake said. The government is uniquely positioned to engage in intergenerational risk-sharing, he said, and it would benefit from efficient annuity and capital markets.



David Blake (left) and Tom Terry at the morning session of the Summer Summit

Blake anticipated and addressed likely objections to his thesis. He added that the concept he is advancing has received support—in varying degrees—from such highly regarded organizations as the World Economic Forum, the U.K. Pension Commission, the Organisation for Economic Co-operation and Development, and the International Monetary Fund.

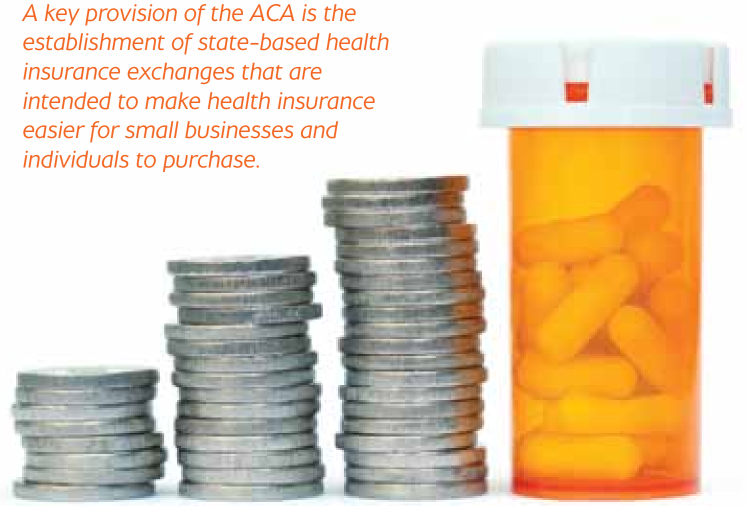
Blake's talk set the stage for the cross-practice breakout groups that followed to chart a course in the year ahead for expanded Academy involvement and outreach on the issues of lifetime income and longevity risk.

Webinar Explores Next Steps for ACA

ACTUARIES FROM MORE THAN 1,800 REGISTERED SITES and all practice areas tuned in to the Health Practice Council's July 11 webinar to learn more about the Supreme Court's June 28 decision to keep the Affordable Care Act (ACA) largely intact, next steps in implementing the law, and Academy efforts to address rising health care costs. Presentation slides and an audio recording of the webinar can be downloaded from the Academy website at no cost.

In its amicus curiae brief filed in January, the Academy did not take a position on the constitutionality of the ACA, explained Kannon K. Shanmugam, a partner at Williams and Connolly LLP in Washington and the author of the Academy brief. Rather, the Academy brief provided an actuarial explanation of how severing the guaranteed issue and rating provisions of the ACA from the individual mandate would have increased adverse selection. This in turn would have led to lower participation and higher premiums, unless other mechanisms were implemented to help ensure participation by a broad cross section of risks, Shanmugam said.

A key provision of the ACA is the establishment of state-based health insurance exchanges that are intended to make health insurance easier for small businesses and individuals to purchase.



The court did not need to rule on the severability issue because the majority opinion upheld the mandate, Shanmugam explained. Five justices agreed that while the individual mandate is not valid as an exercise of Congress' power under the commerce clause, it is a valid exercise of Congress' taxation power.

Seven justices agreed that the Medicaid expansion may exceed Congress' authority under the spending clause, but five justices agreed that the constitutional concern could be avoided by not allowing the federal government to withdraw existing Medicaid funding from states that refuse to participate in the expansion. As a result, states now have the option of choosing whether to implement the ACA's Medicaid expansion.

Four justices argued that the individual mandate was unconstitutional and that it couldn't be severed from the rest of the statute. They would have invalidated the entire law, Shanmugam said.

ACA Implementation

Steve Ostlund, a life and health actuary for the Alabama Department of Insurance and chair of the National Association of Insurance Commissioners' (NAIC) Health Actuarial Task Force, discussed the next steps that states need to take to implement the ACA.

A key provision of the ACA is the establishment of state-based health insurance exchanges that are intended to make health insurance easier for small businesses and individuals to purchase. States can choose to operate their own exchanges (either through a state agency or a nonprofit organization), participate in a multistate exchange, or form a federal/state partnership exchange. States must decide which type of exchange they are going to use by November 2012, and the exchanges need to be fully functional by Jan. 1, 2014. States can receive financial assistance to pay for the cost of creating the exchange. If states decide not to create an exchange, the federal government will run one for them.

"The state exchange planning is ongoing and very fluid," Ostlund said. In a poll conducted by the NAIC in April, approximately a third of the states reported that they plan to set up a state health exchange, a few states said they are planning to use a federal or federal/state partnership exchange program, and more than half still were undecided.

"Once states decide which type of exchange to use, the time for implementation will be very limited," he added.

Ostlund said the NAIC's Health Insurance and Managed Care Committee has been working to help states implement the ACA by developing white papers on how to run an exchange and drafting model acts to support state regulation.

Addressing the Rising Cost of Health Care

Tom Wildsmith, vice president of the Academy's Health Practice Council, provided an overview of upcoming federal implementation guidance on other provisions of the ACA, including risk-sharing mechanisms, actuarial value, and essential health benefits, before outlining some of the steps the Academy is taking to address rising health care costs.

The ACA's comprehensive solution to the problem of how to ensure everyone has access to health care was left largely in place by the court's decision, said Wildsmith. The ACA also has a number of provisions that are intended to control health care costs—such as wellness and prevention programs and delivery systems initiatives—but these aren't enough, he added.

"Rising costs are a systemic problem affecting public programs, private programs, and individual Americans," said Wildsmith. "They affect you and me when we have to pay deductibles and rising copays or buy insurance on our own."

The Academy continues to look for ways to curb long-term health costs and to educate policymakers, the media, and the public about the problem. A new Health Care Costs Work Group has been formed, Wildsmith said, and the Health Practice Council currently is recruiting volunteers to serve on it.

Academy leaders also focused on health care reform and ways to stem rising health care costs at the annual Summer Summit (see related story on Page 5), and are exploring collaborative projects with the Society of Actuaries to address the issue.

Controlling Health Care Costs

EIGHTEEN DAYS AFTER THE SUPREME COURT upheld the majority of the Affordable Care Act (ACA), actuaries from all practice areas gathered at the Academy's Summer Summit to hear from experts about provisions in the law aimed at reducing health care costs and what more can be done to control health spending growth.

"With the ACA we have entered a new phase of health care reform," said Cecil Bykerk, Academy president-elect, in his opening remarks at the afternoon session. "While in many ways still incremental, when put together, it is really comprehensive in nature, with a great deal more focus on controlling costs. [But] for this all to work, costs must be brought down.

"The ever-increasing level of health care costs is an enormous problem that must be addressed." Actuaries are well positioned to address this, Bykerk added, "because we understand the relationship between cost and premiums, we understand the benefit of outcomes-based research, and we can determine the cost drivers in the system."

Sherry Glied, assistant secretary of planning and evaluation at the Department of Health and Human Services, started the afternoon session with a brief review of health care, reimbursement models, and quality measures before detailing some of the ACA's cost-controlling provisions.

Cost containment is a long-standing problem, Glied said, adding that the first recorded mention of the rising cost of health care dates back to 1927.

Back then, hospitals were small and were more about caring for the dying than curing the seriously ill, she explained. But new developments in anesthesia in the 1920s led to the rapid expansion of hospitals, which then developed primarily as a place for middle-class and rich people to have babies, Glied said. Before 1935, there was no health insurance. Private insurance came about because providers had built up an infrastructure, and, when the Depression hit, people had no money to pay for it. Between 1945 and 1950, 50 million Americans gained private insurance, and by the early 1960s, approximately three-quarters of all working adults had health insurance, primarily through their employers.

Mark McClellan, Cecil Bykerk, and Sherry Glied at the afternoon session of the Summer Summit

But private insurance never reached all Americans, and it never insured people outside of employment settings. The biggest gap was with retirees. Only about half of retired workers over 65 had any hospital insurance in the early 1960s. As people got older and sicker, they lost coverage, Glied said. Poor Americans also were unable to finance coverage through private health insurance companies.

"The lack of coverage for older people and poor people strained family budgets, hospital budgets, and state budgets," said Glied. "That gap led the government to step in and create Medicare—which extended nearly universal care to the elderly—and Medicaid."

Cost control was a problem before Medicare and Medicaid, Glied said. But the two programs made it part of the federal budget. This spurred a vast amount of research by economists, actuaries, and others and resulted in a range of public policy responses: the move to prospective payment in Medicare, the shift from paying hospitals on a cost-plus basis to a diagnosis-related system that classifies hospital cases into groups, and the rise of selective contracting.

Despite all the things that have been tried to contain spending, health care costs have been growing 3 percent to 4 percent faster than economywide inflation on a per capita basis since 1939—except for one brief period in the late 1990s, Glied said.

Private health insurance reached its peak in 2000, when 203 million Americans—73 percent of the population—were covered by private health insurance, and 38 million Americans were uninsured. By 2009, 51 million Americans were uninsured.

"The ACA was designed to build on and extend the reach of the private health insurance market at a point when it was clear that it was not going to meet the continued need for financial protection," said Glied.

The big difference between the implementation of Medicare and the ACA is that the ACA benefits from the 35 years that actuaries and economists have been studying the health care system, Glied explained. The legislation addresses much of what they have learned about health care financing and cost containment.

"The benefit design in the ACA is unusual in that it identifies benefits in terms of actuarial value, not in terms of cost sharing, deductibles, and coinsurance," Glied said.

One cost containment provision of the ACA is accountable care organizations (ACOs)—organizations formed by groups of doctors and other health care providers that have agreed to work together to coordinate care for people with Medicare. The ACOs take responsibility for the quality of care in return for the opportunity to share in the savings they generate through high-quality coordinated care. Many private insurance companies have embarked on a similar initiative.

SEE HEALTH CARE COSTS, **PAGE 7**

New Issue Brief Debunks Funded Ratio Myth

THE COMMONLY HELD BELIEF that pension funds with an 80 percent funding ratio are financially sound is a myth, the Pension Practice Council wrote in a new issue brief, *The 80% Pension Funding Standard Myth*. A funding ratio by itself fails to provide a sufficient measure of a plan's financial health, the committee explained.

"Any realistic assessment of a pension plan should include several measures, not just one," said Senior Pension Fellow Don Fuerst. "Somehow 80 percent has become a perceived standard, but that is a myth we need to replace with facts."

In the new issue brief, the Pension Practice Council offers broader criteria for judging the actuarial soundness of a pension plan. Understanding a pension plan's funding progress should not be reduced to a single measure or benchmark at any point. Rather, multiple funding ratios should be examined over several years to determine trends. And other factors also should be considered when assessing fiscal soundness, including:

- The size of the pension obligation compared with the financial resources of the sponsor;
- The financial health of the plan sponsor;
- The funding or contribution policy of the plan; and
- The investment strategy and risk level of the plan assets.

"The 80 percent myth can lead to a dangerous slippery slope," Fuerst warned. "It could evolve into an inadequate target if not challenged. Pension plans should have a strategy in place to attain or maintain a funded status of 100 percent or greater over a reasonable period of time."

The issue brief is part of the Pension Practice Council's response to a report issued earlier this year by Republican Sen. Orrin Hatch of Utah, *State and Local Government Defined Benefit Pension Plans: The Pension Debt Crisis That Threatens America*. The Academy's Pension Practice Council criticized use of the 80 percent standard in a July 23 letter to the senator, the ranking minority member of the Senate Finance Committee.


AMERICAN ACADEMY of ACTUARIES
ISSUE BRIEF
JULY 2012

Key Points

- Frequent unchallenged references to 80% funding as a healthy level threaten to create a mythic standard.
- No single level of funding should be identified as a defining line between a "healthy" and an "unhealthy" pension plan.
- Funded ratios are a point-in-time measurement. The movement or trend of the funded ratio is as important as the absolute level.
- Most plans should have the objective of accumulating assets equal to 100% of a relevant pension obligation.
- The financial health of a pension plan depends on many factors in addition to funded status—particularly the size of any shortfall compared with the resources of the plan sponsor.

The 80% Pension Funding Standard Myth

An 80% funded ratio[1] often has been cited in recent years as a basis for whether a pension plan is financially or "actuarially" sound. Left unchallenged, this misinformation can gain undue credibility with the observer, who may accept and in turn rely on it as fact, thereby establishing a mythic standard. This issue brief debunks that myth and clarifies how actuaries view funding levels for pension plans and how the funded ratio relates to the general idea of "soundness" or the "health" of a pension plan or system. The Pension Practice Council of the American Academy of Actuaries finds that while the funded ratio may be a useful measure, understanding a pension plan's funding progress should not be reduced to a single measure or benchmark at a single point in time. Pension plans should have a strategy in place to attain or maintain a funded status of 100% or greater over a reasonable period of time[2].

What a Funded Ratio Is and Is Not

The funded ratio of a pension plan equals a value of assets in the plan divided by a measure of the pension obligation. Confusion sometimes can result when the term "funded ratio" is used without a clear understanding of how the pension obligation is measured or whether some

[1] Please see Appendix: Development and Sample Usage of the "80% Standard."
[2] Only in unusual situations would a goal other than a 100% funded ratio be targeted. These might include nonqualified pension plans, legislated funding targets or special concerns that a plan sponsor has with setting aside assets equal to the full value of the pension obligation. Social insurance programs, particularly pay-as-you-go programs like Social Security, also do not have a goal of 100% advance funding.

The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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President Signs Pension Funding Stabilization Bill

PRESIDENT OBAMA on July 6 signed pension funding stabilization legislation that was part of H.R. 4348, the transportation reauthorization bill. The pension components in the bill include disclosure requirements to the annual funding notice that are consistent with suggestions made by the Academy's Pension Practice Council in a May 2 letter to congressional conferees.

The pension provisions also cover segment interest rates based on a 25-year average subject to an expanding collar of 10 percent in 2012 and increasing to 30 percent in 2016 and later. The higher interest rates apply to Section 436 thresholds but do not apply to lump-sum benefits, limits on deductible contributions, transfers to retiree medical accounts, Pension Benefit Guaranty Corp. (PBGC) variable-rate premiums, or 4010 reporting to the PBGC. The bill also includes significant increases in PBGC flat-rate and variable-rate premiums, changes in the PBGC governance structure, and extensions of the Section 420 transfers for retiree medical benefits through 2021. Qualified transfers also are expanded to allow the purchase of group-term life insurance for retirees.

PENSION BRIEFS

- **Douglas Eckley**, professor of economics for Northern Virginia Community College in Alexandria, Va., has joined the Academy's Social Security Committee.

SAVE THE DATE

Learn more about Precept 13 of the Code of Professional Conduct during the professionalism webinar on **Sept. 13**.

Keep an eye on your inbox for more details.

THANK YOU...

for participating in the 2012 Academy Member Poll. The results are being tabulated and analyzed, and will be made available in the fall.

Health Care Costs, continued from Page 5

The ACA also moves toward bundled payments and capitated systems in which providers are paid a contracted rate for each member regardless of the number or nature of services provided.

"The ACA is the product of decades of research that have taught us about these strategies, their potential effect, and their pitfalls," said Glied. "It is a private/public partnership in which insurers play a singularly important role. And there will be an exceptionally important role for actuaries as the system moves forward."

Next Steps for Reform

The afternoon's second speaker, Mark McClellan, said that public policy should aim to reduce overall costs while improving outcomes by promoting innovative, individual-oriented, higher valued care.

Moving from our current provider payment system to a system based on accountability for better results and lower costs is a gradual process, said McClellan, director of the Engelberg Center for Health Care Reform at the Brookings Institution and a former administrator of the Centers for Medicare & Medicaid Services from 2004 to 2006. If reimbursements are tied to measured results, we will see improvements in quality. But we need better measurements for this to succeed, he added.

McClellan identified a number of changes in health care delivery that, when taken together, would improve health and lower costs, such as:

- Better prevention;
- More effective and efficient care for chronic diseases;
- Increased care coordination;
- Patient-focused support with less dependence on face-to-face visits; and
- More efficient treatment of low-complication acute care episodes.

Health care traditionally addressed things that had already happened, McClellan explained, and much less attention was given to preventive care. Costs were controlled by lowering the payment rate for services—but this approach was hard to sustain because providers made up for lower rates with increased volume.

"There is a fundamental shift in where health care is heading," said McClellan. "We do a good job of measuring volume and intensity," he added, "but we don't do a good job of measuring outcomes. With better measures, we can change the way providers are paid and the way that benefits are designed."

The ACA uses some of these approaches, McClellan said, but more is needed. We are in a transition process as we try to reform our health care system on the fly, he explained. People are understandably risk averse when it comes to change; they don't like what they have, but they don't like the new approach either. And it's a new way of doing business for providers that requires them to shift the way they use resources. Providers haven't worked the details out yet and don't have the infrastructure in place.

"I think we are going to solve this problem because there is so much at stake and there is really nothing that Americans care more about than their health," said McClellan, adding: "That doesn't mean getting there is easy."

Legislators Discuss PBR, FIO, LTC, and ACA

THE ACADEMY PRESENTED on and actively participated in discussions on principle-based reserves (PBR), the Federal Insurance Office (FIO), Long-Term Care (LTC) insurance, and the Supreme Court's June 28 ruling on the Affordable Care Act (ACA) at the National Conference of Insurance Legislators' (NCOIL) summer meeting.

Life Session

With the National Association of Insurance Commissioners (NAIC) set to approve a new Valuation Manual at the NAIC summer meeting, PBR remained a primary focus of the Life Insurance and Financial Planning Committee session.

The Academy has been instrumental in the development of PBR and has been the technical architect behind PBR, Academy Senior Life Fellow Nancy Bennett said in a presentation to the committee. The Academy has worked with the NAIC since the early discussions on PBR and is supportive of the Valuation Manual. Some issues will require further discussion and analysis, she added, emphasizing that implementation of a process that facilitates the ongoing review, assessment, and improvement of the valuation manual is critical to the ultimate success of principle-based valuation of insurance products.

The Life Insurance and Financial Planning Committee also approved amendments to the *Model Unclaimed Life Insurance Benefits Act* that: require insurers to compare their in-force life insurance policies against the U.S. Social Security Death Master File (DMF) on a semiannual basis; include government and church plans in the model; bar insurers' service providers and insurers from charging policyholders service fees associated with DMF searches; and set up a protocol for insurers to conduct post-identification of potential matches.

Round Table on the FIO

Bennett also participated in a round-table discussion about the FIO's statutorily required report to Congress on modernizing and improving the system of insurance regulation and oversight in the United States. During her presentation, Bennett summarized earlier comments by the Academy's Financial Regulatory Reform Task Force to the FIO. Bennett stressed the importance of coordinating new federal oversight with existing regulators and agencies. She also said that the basis of any additional prudential regulation of systemically important financial institutions with insurance affiliates is an understanding of the specific underlying risks and business model, rather than a generic formula common to all companies across all segments of the financial services industry.

Health Sessions

There are options to reform the U.S. long-term care system, Steve Schoonveld, a member of the Academy's Federal Long-Term Care Task Force, said in a presentation to the NCOIL Health, Long-Term Care, and Health Retirement Issues Committee. An effective long-term care system must address financial soundness, affordability, coverage, efficient use of system funds, comprehensiveness of benefits, and choice, Schoonveld said.

A symposium on ACA implementation featured a discussion among federal and state officials and representatives from health care-related organizations about the Medicaid expansion and how the recent Supreme Court decision to let states opt out of the expansion will affect this portion of the law. The speakers also noted that the federal government is encouraging states to set up their own health insurance exchange because the states will be better able to manage their populations.

The July 12–15 meeting in Burlington, Vt., attracted more than 270 attendees, including nearly 50 state legislators.

International Congress of Actuaries 2014

Prizes to Be Awarded for Best ICA 2014 Papers and Presentations

THE INTERNATIONAL CONGRESS OF ACTUARIES 2014 SCIENTIFIC COMMITTEE has issued a call for papers and presentations for the quadrennial conference, which will be held March 30–April 4 in Washington.

Actuaries and non actuaries interested in presenting a paper or making a presentation are invited to submit an abstract of their proposed paper or presentation to the Scientific Committee by the Sept. 30, 2012, deadline. For details about the call for papers, visit the ICA 2014 website at www.ICA2014.org/callforpapers.

The Scientific Committee will award prizes for the one or two best paper(s) and/or best presentation(s) in each subject matter track:

- Life insurance
- Health insurance and related topics
- Non-life insurance (general insurance; property/casualty insurance)
- Pensions, employee benefits, and social insurance
- Enterprise risk management and financial risks
- Professionalism and education
- Consulting

The Scientific Committee will determine the number of prizes and award up to a total of $2,000 (U.S.) per track. When selecting prizewinners, consideration will be given to both traditional papers and less formal presentations. Additional prize opportunities will be announced at a later date.

The theme of the 2014 Congress is "Learn, Interact, Grow." The Scientific Committee's goal is to provide an environment in which attendees can learn new ideas by sharing concepts and approaches with other professionals from around the globe while growing the body of actuarial knowledge and improving the tools used in an actuary's daily practice.

Members with questions about the call for papers and presentations may contact David Core (dcore@casact.org) of the ICA 2014 Secretariat.

ASB News

Comment on ERM Risk-Treatment Draft

THE ACTUARIAL STANDARDS BOARD (ASB) recently approved the *Risk Treatment in Enterprise Risk Management* exposure draft, which provides guidance to actuaries when preparing requirements and requests for assessment of the risk treatment part of the risk-management system to evaluate whether their risk-management systems are operating at a level that meets or exceeds professional standards. Comments on the exposure draft, which was developed by the ASB's Task Force on Enterprise Risk Management, are due by Sept. 10, 2012.

Casualty News

Flood Program Gets Five-Year Extension

AFTER YEARS OF SHORT-TERM EXTENSIONS of the National Flood Insurance Program (NFIP), Congress passed legislation on June 29 that reauthorizes the NFIP for five years. The Biggert-Waters Flood Insurance Reform and Modernization Act of 2012 is part of transportation reauthorization legislation—H.R. 4348—that was signed into law by President Obama on July 6. The NFIP had been set to expire on July 31. The new legislation extends the program to Sept. 30, 2017.

"The multiyear reauthorization will help to strengthen the flood insurance market as the program regains stability," said Stuart Mathewson, chairperson of the Academy's Flood Insurance Subcommittee. "Real estate markets and insurance markets won't have to face uncertainty about whether the program will be in force or not. The bill also establishes a rate structure that more adequately matches potential loss payments and premium income.

"The most troubling part of the legislation is that it doesn't directly address the program's $17.75 billion debt from the catastrophic losses suffered in the 2005 Gulf Coast hurricanes," Mathewson added. "Even with the new rate structure, it will take decades to repay this debt."

"The multiyear reauthorization will help to strengthen the flood insurance market as the program regains stability."
— Stuart Mathewson

For the NFIP's financial stability to improve, the debt issue ultimately will need to be addressed, Mathewson said, but forgiving the debt is politically impractical until the federal deficit is under control.

Congress included catastrophe years such as 2005 when defining the average historical loss year. This may prove a difficult challenge for Federal Emergency Management Agency actuaries, Mathewson explained, because the losses from even one catastrophe year will skew the results and increase rates significantly. For instance, including 2005 would roughly double long-term estimated losses. This would add significant volatility to the rate calculation and is contrary to other provisions of the law that require rates to be made using accepted actuarial principles.

The new law also requires the NFIP administrator to establish a reserve fund to cover losses in years in which claims are higher than expected. Mathewson called this provision a mixed blessing because it will be difficult to build up a reserve when the program will be paying down the debt for decades to come.

The bill also:

- Phases out subsidies for many properties;
- Raises the cap on annual premium increases from 10 to 20 percent;
- Allows multifamily properties to be insured under the NFIP;
- Increases minimum deductibles for flood claims;
- Clarifies residential and commercial coverage limits;
- Establishes a technical mapping advisory council to deal with map modernization issues.

Prior to Congress' vote on H.R. 4348, the Academy's Flood Insurance Subcommittee provided an actuarial perspective on the legislation and its possible effect on the NFIP in a June 28 letter to congressional leaders.

Actuarial Update

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Life PBR: Test-Drive the New VM-20 Seminar

Sept. 11–12, Los Angeles

Learn how to apply the new reserving requirements to real-life situations. During this two-day interactive seminar, attendees will have the opportunity to discuss specific components of *Valuation Manual-20* (VM-20) with expert faculty. The seminar will cover:

- Mortality assumption determination;
- Exclusion test application;
- Setting anticipated experience assumptions and margins;
- Status updates on the *Valuation Manual* and the VM-20 practice note.

Click here for more information or to register.
Register by Aug. 20 and save $100!

SAVE THE DATE!

P/C Effective Loss Reserve Opinion Seminar: Tools for the Appointed Actuary

Nov. 7–8, Baltimore

Actuaries who write P/C loss reserve opinions and who want to stay up to date on regulations and standards applicable in drafting loss reserve opinions should plan to attend.

New this year:

- Breakout sessions focusing on intercompany pooling, premium reserves, reinsurance, and extended reporting contracts
- Workshops covering sample opinions and report documentation

Don't miss out on this opportunity to learn more about:

- Changes to the 2012 NAIC opinion instructions
- Accepting an opinion assignment
- Documentation and disclosure
- Point estimates, ranges, and management's best estimate
- Regulatory expectations
- Disclosing risk of material adverse deviation
- Dealing with difficult situations
- ASOP No. 36 (*Statement of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserve*)
- ASOP No. 43 (*Property/Casualty Unpaid Claim Estimates*)

LIFE BRIEFS

- **Stephen McNamara**, vice president and actuary at New York Life in New York, has joined the Academy's Life Illustration Work Group.
- **Chad Padgett**, senior vice president and actuary for Forethought Financial Group in Houston, has joined the Academy's Annuity Reserves Work Group.
- **Martin Snow**, vice president and actuary for TIAA-CREF in New York, and **Beth Stephenson**, an actuary for the Texas Department of Insurance in Austin, have joined the Academy's Life Practice Council.

Academy Elections, continued from Page 1

to vote. Voting is being conducted online through a secure, third-party election website. The Academy's election vendor, Survey & Ballot Systems, sent an email (from noreply@directvote.net) on July 23 with instructions for voting online to all members who have not opted out of receiving Academy emails.

Members who have opted out of receiving Academy emails were sent election materials through the mail and have the option to vote online or by mail. If you didn't receive an email (or paper) ballot, please contact elections@actuary.org.

As previously reported (see the May *Update*), the Academy board of directors will vote at its annual meeting on Oct. 11 on the slate of officer candidates. The slate includes:

- President-Elect Tom Terry
- Secretary Stephen Rosen
- Treasurer Art Panighetti
- Vice President/Casualty Mike Angelina
- Vice President/Health David Shea
- Vice President/Professionalism Karen Terry

The terms of Vice Presidents Maryellen Coggins, John Moore, and Cande Olsen continue until next year.