Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

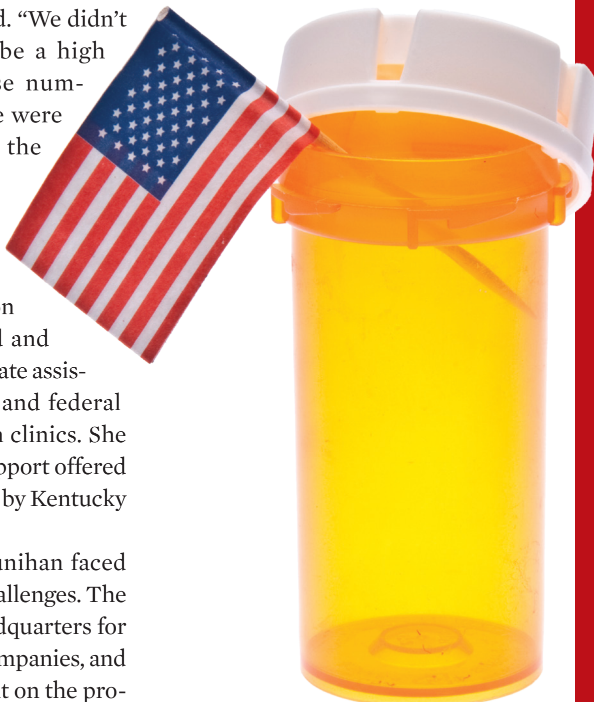
State of the Health Care Exchanges

OPEN ENROLLMENT for the purchase of health insurance coverage through new exchanges created under the Affordable Care Act (ACA) officially ended on March 31, 2014. For state exchanges, this was the culmination of a grueling process that involved coordination between insurance carriers, and mounting pressure from state and federal governments.

In a May 29 Academy webinar, Kevin Counihan, CEO of Access Health CT and Carrie Banahan, executive director at the Office of the Kentucky Health Benefit Exchange, presented an inside perspective on the challenges that state health exchanges are facing, and the successes they can claim so far.

Banahan faced the task of providing health insurance to one of the unhealthiest states in the nation, with the majority of Kentucky's counties having uninsured rates between 17 and 20 percent. The only state in the south to expand Medicaid and establish a state-based exchange, Kentucky has insured 400,000 residents to date through its exchange.

"We honestly did not know what to expect." Banahan said. "We didn't know if there would be a high demand, or how those numbers would fare, but we were extremely happy with the 400,000."



Banahan attributes the success of the exchange to a "combined effort" that depended on an integrated Medicaid and exchange program, in-state assistors, insurance agents, and federal funding for rural health clinics. She was pleased with the support offered by key stakeholders, and by Kentucky Gov. Steve Beshear.

In Connecticut, Counihan faced his own unique set of challenges. The state is home to the headquarters for many large insurance companies, and carriers were ambivalent on the process of health reform. Connecticut's state administration was supportive, but not as hands-on as other state-exchange programs.

"We had very good support from the administration but they pretty much made it clear that this was our responsibility to make it work," Counihan said.

To alleviate concerns, Counihan met with the carriers to establish processes for joining the exchange. He enacted a variety of initiatives, including opening retail stores that offered information on the exchange,

SEE **STATE EXCHANGES,** PAGE 7

Academy President Speaks on 'Actuaries in the Public Interest'

A STRONG AND EFFECTIVE U.S. ACTUARIAL PROFESSION means we must anticipate change and invest in our future.

That's the message Academy President Tom Terry brought to two actuarial clubs last month, as he spoke on actuaries and the public interest to the Actuaries Club of Philadelphia on May 8, and again at the Actuaries' Club of Hartford (Conn.) & Springfield (Mass.) Annual Meeting on May 21.

Terry outlined three principles that will help keep the actual profession "strong and effective in the years ahead." They included:

- Accountability–"assuring the public, including regulators, that individually and collectively, we're qualified to do the work expected of us."
- Responsibility–"giving back to the public what they expect of us in terms of sharing our expertise and perspective on matters of important public policy that affect so many Americans."
- Excellence–"maintaining an environment of continuous and relevant learning so we're all appropriately up to date on cutting-edge practice."

JUNE

12-13 Actuarial Standards Board meeting

JULY

10-13 NCOIL summer meeting, Boston

14 Academy Summer Summit, Washington

AUGUST

7 Executive Committee meeting, Washington

16-19 NAIC summer meeting, Louisville, Ky.

SEPTEMBER

15–16 Casualty Loss Reserve Seminar, San Diego

OCTOBER

7-8 Academy Board of Directors meeting, Washington

NOVEMBER

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

13-14 Academy Annual Meeting, Washington

16-20 NAIC fall meeting, Washington

20-23 NCOIL annual meeting, San Francisco

American Academy *of* Actuaries

Objective. Independent. Effective.™

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

Nominations Invited for Regular Directors

ARE YOU AN ACADEMY VOLUNTEER with extensive experience in your area of practice and commitment to the Academy's public policy and professionalism mission? If so, consider nominating yourself or another volunteer for consideration by the Nominating Committee for a regular director position on the Academy's Board of Directors.

As the national professional association of U.S. actuaries, the Academy is uniquely dedicated to being objective, independent, and effective in its public policy and professionalism work. The Nominating Committee seeks those who share those goals.

The Academy board is comprised of deeply committed volunteers from all areas of actuarial specialty who create a board community that brings those diverse backgrounds together to serve the common good and through it, our profession. Academy board members fulfill important fiduciary duties and assume responsibility for promoting strategic directions that help the Academy achieve its mission to serve the public and the U.S. actuarial profession.

The Nominating Committee seeks candidates for leadership positions who bring considerable expertise and experience in their fields of actuarial practice and display deep knowledge and understanding of the Academy's history, mission, and priorities.

In addition to its own outreach, the Nominating Committee welcomes input from other Academy members suggesting candidates for consideration who, when the whole composition of the board is considered, will reflect a good balance among the diverse specialties and business affiliations of the members.

A slate of three candidates will be offered to the membership this summer in an online election process, as has been done for the last three years. The election period will be announced shortly.

Click here to learn more and submit your nominations.

The Nominating Committee is chaired by 2012 Academy President Dave Sandberg. Also serving on the committee are Academy President Tom Terry, Immediate Past President Cecil Bykerk, and President-Elect Mary D. Miller. Other members are Albert Beer, Katherine Campbell, Audrey Halvorson, and Catherine Murphy-Barron.

Submit Your Nominations for Academy Service Awards

THE ACADEMY is now accepting nominations for the Robert J. Myers Public Service Award and the Jarvis Farley Service Award.

The Myers Award recognizes actuaries in public service who have made an exceptional contribution to the common good. It may recognize a single, noteworthy contribution to public service, or an outstanding career devoted to the public good.

The Farley Award is given to Academy members whose volunteer efforts on behalf of the Academy have made significant contributions to the advancement of the profession.

The deadline to submit nominations for both awards is July 3, 2014.

IN THE NEWS

A *Wall Street Journal* article published April 30 asked if serving as a health actuary is "the hardest job in America." The article noted that, in the aftermath of the Affordable Care Act (ACA), "actuaries have little to go on when predicting medical costs—and setting premiums. What's more, frequent regulatory tweaks from policy makers have forced actuaries to rejigger their projections and strategies on the fly. This is raising the stakes for actuaries." It made note of the Academy's "campaign-style rapid response" to comments from Republican National Committee Chairman Reince Priebus.

The Academy's Social Security Game was cited in a *USA Today* story advising readers on when to take Social Security payments. *USA Today* Money columnist John Waggoner encouraged readers to play the game in order to "see how simple" it might be to fix problems in the Social Security system,

CONTINUED ON **PAGE 3** ➜

← CONTINUED FROM **PAGE 2**

adding, Tell your congressman to join the fun."

The Academy was cited in the Huffington Post blog posting, "The Best Mother's Day Gift We Can Give: A More Secure Social Security." Columnist Jane White, author of *America, Welcome to the Poorhouse*, cited Academy research on changes in life expectancy over the history of the program.

Senior Pension Fellow Donald Fuerst reviewed the Academy's "Essential Elements" public policy papers during the April 24 edition of the "Health, Wealth and Wisdom" radio show, broadcast by WHNZ 1250 AM in Tampa, Fla. Fuerst was also quoted in stories for *Forbes* magazine, the *Dallas Morning News*, and the *Pittsburgh Post-Gazette*.

Senior Health Fellow Cori Uccello previewed the Academy's new issue brief on the factors that will drive health insurance premiums for 2015 in a guest column for healthaffairs.org. Uccello noted that, while insurers know more about ACA enrollees than they did when they set last year's premiums, uncertainty about enrollee health status and spending will impact calculations for 2015. Other drivers include lower funding for the ACA's reinsurance program, and continued growth in health care costs. Uccello was also quoted in a Vox.com article and a (subscriber-only) Bloomberg BNA story.

Uccello also discussed the Academy's Health Costs/Quality of Care initiative on the "Health, Wealth and Wisdom" radio show. In a 15-minute radio interview, Uccello discussed trends in health care costs and spending, and the Academy's efforts to educate policymakers on how to reduce the rate of spending growth.

Committee on Federal Health Issues Chairperson Cathy Murphy-Barron discussed the Health Practice Council's new issue brief on drivers of 2015 premium changes with *Modern Healthcare* magazine. The release of the issue brief was also reported by the following outlets:

- *Politico Pulse*
- *Life and Health Advisor*
- *Inside Health Policy*
- *LifeHealthPro*
- *AHIP Coverage*
- *The Morning Consult*
- *InsuranceNewsNet*
- *BenefitsLink Health & Welfare Plans Newsletter*

Arizona is in a unique position, according to ACA enrollment numbers from the Department of Health and Human Services. The state leads the nation in the percentage of children who enrolled through the federal marketplace, but had fewer enrollees than average in every other age group. Arizona media has turned to Academy board member and Health Care Costs Work Group Chairperson Audrey Halvorson for help understanding the issue. Halvorson's explanation of risk pools was covered by the *Tucson Sentinel*, KTAR-FM (Phoenix), arizona.newszap.com, CopaMonitor.com, and other media outlets.

The Risk-Sharing Work Group's comment letter on a proposed rule related to exchanges and market reforms was featured in *LifeHealthPro*, *The Weekly Standard*, the *Washington Examiner*, and *BenefitsLink Health & Welfare Plans Newsletter*.

The Academy's new "Essential Elements" paper, "The 80% Pension Funding Myth," was featured in a posting on the Missouri State Employees' Retirement System "Rumor Central" blog. The post endorsed the Academy's view that "no single level of funding distinguishes a healthy plan from an unhealthy plan. In fact, plans should have as their objective accumulating

CONTINUED ON **PAGE 8** →

PROFESSIONALISM COUNTS

Revised Pension and Health ASOPs Get the Green Light

The Actuarial Standards Board (ASB) has been busy with the recent approval of not one, but two revised Actuarial Standards of Practice (ASOPs): ASOP No. 6, on retiree group benefits, and ASOP No. 8, on regulatory filings for health benefits.

ASOP No. 6 is now titled *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*. Key changes in the revised version of ASOP No. 6 include new disclosure requirements related to:

- a retiree group benefits program's funded status;
- changes in the assumptions and methods;
- a change in the cost or contribution allocation procedure; and
- the implications of the contribution allocation procedure or plan sponsor's funding policy on future expected plan contributions, funded status, and ability to make benefit payments when due.

ASOP No. 6 now complements the guidance in ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, and takes effect March 31, 2015, unless roll-forward techniques are used. In that case, the standard takes effect three years after the last full measurement before March 31, 2015. Earlier adoption of the revised standard is permitted.

ASOP No. 8 is now titled *Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits*. Key changes in the revised version of ASOP No. 8 include:

- new guidance on some of the many regulatory changes stemming from the Affordable Care Act;
- more detailed guidance for actuaries reviewing regulatory filings; and
- new guidance on the preparation and review of health insurance rate filings for medical lines of business required by state or federal regulations.

Revisions to ASOP No. 8 will take effect September 1, 2014.

View the revised ASOPs on the ASB website under the tab "Current Actuarial Standards of Practice."

Obituary: Harry Clay Ballantyne, Former Social Security Chief Actuary

FORMER Social Security Chief Actuary Harry Clay Ballantyne passed away May 2 at his home in Sykesville, Md.

Ballantyne worked for the Social Security Administration (SSA) for 42 years, and was the SSA's chief actuary from 1982 until his retirement in 2000. Upon his retirement, Ballantyne won the Academy's Robert J. Meyers Public Service Award. It was one of many to line his shelves, including two Presidential Meritorious Executive Rank Awards, and two Presidential Distinguished Executive Rank Awards.

Ballantyne was elevated to chief actuary in time to work closely with congressional staff on a series of legislative changes to the SSA that became law in 1983.

In a statement, current SSA Chief Actuary Stephen Goss called Ballantyne "soft spoken," but also "strong and decisive." Goss noted, "His leadership and ability to command the respect and confidence of policymakers vastly expanded the ability of the office to assist and influence policy in Congress and in the administration."

Ballantyne spent several years of his retirement serving on the board of Camp Opportunity, a Maryland non-profit organization serving at-risk children.

The family has asked that memorial donations be directed to Camp Opportunity Inc., 3000 Baybriar Road, Baltimore MD 21222.

HEALTH NEWS

NAIC Approves New Group Long-Term Disability Valuation Table

THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) recently approved the 2012 Group Long-Term Disability (GLTD) valuation table. The changes, and how to apply the new table, were the subject of the Academy's "What You Need to Know on the New Group Long-Term Disability Valuation Table and Actuarial Guideline" webinar on May 15.

The new valuation table is the sister table to the previous 2008 experience table. The NAIC commissioned the Academy in 2011 to create a new table based on updated data.

Eric Poirier, a member of the Group Long-Term Disability Work Group, reviewed the changes within the Model Regulation portion of the table. The updated Model Regulation distinguishes between long-term disability and short-term disability. The 2008 experience table grouped both terms under "group disability."

The Model Regulation is currently awaiting adoption by each state's commissioner. Once adoption occurs, all companies will be required to begin using the new regulation between Oct. 1, 2014, and Oct. 1, 2016. Claims that are made past Oct. 1, 2016, will need to follow the new regulatory standards.

Rick Leavitt, member of the Group Long-Term Disability Work Group, continued the discussion with an explanation of the key differences within the table. Changes include:

- Separate claims for recovery and death rates
- Rates separated according to claim diagnosis and gross monthly benefits, in addition to age, gender, and duration
- Recovery rates vary according to two definitions of disability: own occupation and any occupation
- Maternity claims with a duration of less than 36 months are now treated separately from traditional maternity claims

Leavitt closed the webinar with a review of the accompanying Actuarial Guideline. The guideline specifies that the carrier must use the table to determine claims, but the table can be modified based on their own termination experience regardless of claim duration. The previous application based claims solely on calling a carrier's own experience. There are also specifications on how muchof a margin a carrier can introduce based on the size of a particular claim block.

Paper Examines Growth of Health Care Costs

MORE THAN ONE out of every six dollars spent in the United States goes toward health care. And while growth in health care costs has slowed in recent years, it has not reversed, with health care spending now taking up 17.2 percent of the nation's gross domestic product. The Academy has published a paper analyzing what drives the growing cost of health care, as part of its Essential Elements effort, a series of publications designed to make actuarial analyses of public policy issues more accessible to widespread audiences.

The Academy's Health Practice Council, the paper explains, "is undertaking an initiative to examine health care cost growth and explore options that can reduce spending growth over the long term, while at the same time focusing reform efforts on achieving cost-effective and high-quality care."

The paper identified six forces that are driving continued cost growth:

- Payment structures that reward more tests and procedures, leaving "doctors and hospitals little financial incentive" to provide cost-effective care, with reimbursements not wholly tied to patient outcomes;
- More expensive medical technology, which, unlike consumer technology, does not tend to decrease in cost over time;
- Less healthy lifestyles, increasing the need for medical services;
- Lower out-of-pocket costs for many consumers, which "leads to increased utilization" of medical services;
- Broader provider networks, which "can limit an insurer's ability to negotiate provider discounts because they cannot impose efficiency standards," due to lack of competition;
- A primary care provider shortage, driving greater use of more expensive specialists.

The burden of cost growth is felt throughout society, with 28 percent of the tab falling on households, 26 percent on the federal government, 21 percent on private businesses, and 18 percent on state and local governments.

Approaches to reducing costs include research on the comparative effectiveness of different treatments, valued-based insurance design approaches that would tailor cost-sharing for certain treatments and services to individuals' specific needs, and wellness and disease-management programs.

What's Driving Health Insurance Premium Changes

THE AFFORDABLE CARE ACT'S (ACA) 2014 open enrollment period for the individual health insurance market ended on March 31, and health insurers are now developing premium rates for the 2015 plan year. Insurers currently are submitting their premiums to state and federal regulators for review, with final approval decisions due this fall. The Academy this month published an issue brief outlining the factors that will drive how 2015 premiums could differ from those in 2014.

The brief notes the high level of uncertainty about who would purchase coverage in 2014, and while insurers now have more demographic data about those enrollees, questions remain regarding enrollee health status and spending. In addition, the transitional policy for non-compliant ACA plans could affect 2015 premiums. Among states allowing renewal of non-compliant plans, the "impact on premiums could be greatest in states that had large, heavily-underwritten individual markets in place prior to 2014."

Beyond the composition of the risk pool, other drivers of change include the reduction of reinsurance program funds from $10 billion in 2014 to $6 billion in 2015. By lowering the share of claims that are reimbursed through the reinsurance program, the reduction in funds could result in premium increases.

The underlying growth in health care costs is also a factor. The brief notes that, "In recent years, health spending growth has been low relative to historical levels. There is, however, some uncertainty regarding the causes of these trends and whether they will continue."

Academy Comments on Credit Risk Factor Proposal

THE ACADEMY'S Property and Casualty Risk-Based Committee has submitted comments to the National Association of Insurance Commissioners (NAIC) on the Reinsurance Association of America's (RAA) updated proposal on credit risk factors.

The letter offers "general support for the RAA's recommendations," but offers "specific input that can be used to further adjust the determination of the RBC R3 load."

The committee notes that the "comments are not intended to delay the NAIC's implementation of an RBC revision," but rather, that "periodic revisions of the NAIC's RBC framework are useful as part of an ongoing process."

CASUALTY BRIEFS

- **Katharine Barnes**, director for Towers Watson in Boston, has joined the Opinion Seminar Subcommittee.
- **Thomas McIntyre**, principal for KMPG LLP in Hartford, Conn., has joined the Casualty Practice Council.

Analyzing Social Security Design Changes

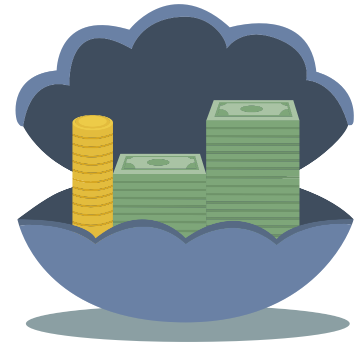
THE SOCIAL SECURITY COMMITTEE this month released an issue brief that examines a proposal to change Social Security's current defined benefit system to 'a defined contribution system in which American workers would accumulate contributions in individual accounts to fund their retirement income."

Proponents of such an approach argue that workers who invested their Social Security accounts in the stock market would not only obtain comparable benefits but also would stimulate the economy by increasing the availability of capital and lower the future cost of Social Security.

The existing program, however, is "among the most successful and popular programs of the federal government," the committee noted, and voters are resistant to making any change.

The Academy takes no position in the debate, but seeks to provide "a careful analysis of the practical issues that will arise" if the government should choose to move to an individual account system.

As part of its analysis, the committee looked at how such a program would stack up against 401(k) plans, the thrift savings plan offered to federal employees, and individual retirement accounts available on the private market.



The paper discusses many of the practical concerns involved in managing an individual account system, including how to transition to the proposed system, whether to build it as a voluntary or mandatory program for all workers, ethical and political investment considerations, and whether to allow workers to take retirement funds in a lump sum or require annuity purchases.

"Revising the Social Security system to include individual accounts would be a difficult and complex undertaking," the committee concluded, adding that the political challenges involved in convincing Congress and voters to accept the change is "only part of the task facing its proponents."

Issue Brief on Evaluating Social Security Reforms Updated

THE ACADEMY'S SOCIAL SECURITY COMMITTEE published an updated issue brief outlining qualitative measures that policymakers should use in evaluating Social Security reforms. Reform proposals in recent years have come from the National Commission on Fiscal Responsibility and Reform, members of Congress from both parties and private think tanks.

The committee explained that, "Advocates of the various reforms all claim that their proposals would solve Social Security's financial problems while continuing to meet participants' financial needs in retirement. In the face of these competing claims, a set of guidelines of quantitative measures is needed."

The measures recommended fall into two broad categories: actuarial viability, and distributional impact.

Actuarial viability measures show whether a proposal could provide sufficient income to support projected benefits and expenses, and include long-term adequacy, long-term solvency, sustainable solvency, and the need for large-scale general revenue participation.

Distributional impact measures show how well a proposal could meet the financial needs and expectations of participants, and include replacement ratios, purchasing power at older ages, and money's worth comparisons.

PROFESSIONALISM BRIEFS

- **Cande Olsen**, member of the Academy's Council on Professionalism Task Force on Discipline, spoke about current professionalism topics at the spring meeting of the Actuarial Society of Greater New York on May 7. Sheila Kalkunte, Academy assistant general counsel, also spoke during the event on the current status of the National Association of Insurance Commissioners (NAIC) Joint Qualified Actuary Subgroup's uniform "Qualified Actuary" definition, the NAIC Life Actuarial Task Force's charges on PBR implementation to the Academy's Committee on Qualifications, and actuarial obligations under Precept 13 of the Code of Professional Conduct.

The Academy Capitol Forum: Meet the Experts Webinar Series

Title: "PBGC: Protecting Pensions & the Role of the Actuary,"June 30, 2014

Noon–1 p.m. Eastern

- **Moderator:** Donald E. Fuerst
- **Presenters:** Christopher Bone, FSA, EA, MAAA Director — PRAD Pension Benefit Guaranty Corp.

Neela K. Ranade, FSA, EA, MAAA

Chief Negotiating Actuary

Corporate Finance and Restructuring Department

Pension Benefit Guaranty Corp.

Register online now.

Academy Comments on NAIC Separate Accounts Proposals

THE ACADEMY'S Separate Account Products Work Group (SAWG) has provided comments to the NAIC's Separate Account Risk (E) Working Group on proposed regulatory guidance. The SAWG asked that the NAIC incorporate suggested principles for insulating separate account assets for non-variable products, and consider updating revisions to some of the NAIC's model regulations that could be affected.

Life Practice Council Advises on VM-20 Small Company Exemption Proposal

THE LIFE PRACTICE COUNCIL of the Academy provided written comments to the National Association of Insurance Commissioners (NAIC) Life Actuarial Task Force on a proposal to exempt small companies from VM-20 requirements.

While the practice council doesn't support exemptions based on company size, the letter starts by saying that the council understands "the concerns articulated by small companies with respect to the additional work/effort that VM-20 could require if a company does not issue products with significant risks."

In order to account for those concerns, the letter advises that the task force "consider a combination of changes to VM- 20 that would effectively produce, when implemented, a result that is consistent with the intended effect" of the exemption, "but retains the more effective goal of risk-based exemptions."

Work Group Comments on Reserve and Capital Requirements for Contingent Deferred Annuities

THE ACADEMY'S AG 43/C3P2 Work Group sent a comment letter to the National Association of Insurance Commissioners (NAIC) discussing the American Council of Life Insurers proposals for modification of reserve and capital requirements for contingent deferred annuities.

The letter notes that the work group "believes that neither changes nor additions are needed to AG 43 and C3P2 at this time. We believe that these documents provide principles that can be applied to new products," such as Contingent Deferred Annuities, without the need for any change.

Instead, the group explains, "The focus should be on establishing (or adopting already established) processes to review and communicate questions and concerns regarding the application of AG 43 and C3P2, rather than modifying or adding to" existing requirements.

The letter proposes a process for reviewing future change proposals through existing review groups.

LIFE BRIEFS

- **Jim Lamson**, president, and **Christopher Olechowski**, consultant, at Actuarial Resources Corp. in Overland Park, Kan., are now the co-chairpersons of the Annuity Reserves Work Group.
- **Susan Gozzo Andrews**, property and casualty actuary for the Connecticut Insurance Department in Hartford, Conn., has joined the C1 Work Group.
- **Zorast Wadia**, consultant for Milliman Inc. in New York, has joined the Lifetime Income Risk Joint Task Force.
- **Kelly Rabin**, consulting actuary for Milliman Inc. in Seattle, has joined the Separate Account Products Work Group.

State Exchanges, continued from Page 1

to boost enrollment. Counihan believes that "what saved us" was a meeting with the website systems integrator, in which technical requirements were cut by 30 percent.

The Connecticut exchange has enrolled a total of 208,000 citizens to date.

Preparations are underway for the re-enrollment period, which Counihan believes will be "more tricky" than the open-enrollment process. Both Connecticut and Kentucky are adding additional staff to their call-centers, and focusing on consumer education efforts.

Despite challenges, both Banahan and Counihan said they would recommend enacting a state-based exchange over going with the federally administered system some states chose.

"I believe the state-based exchange is the best route." Banahan said. "You can meet the needs of your residents better. With the federal exchange, it's a one-size-fits-all approach."

While he is happy with the end results, Counihan acknowledged that the process was demanding, and advised states to leverage the experience of states with successful exchanges.

DISCIPLINARY NOTICE

The following was posted to the Academy's Public Discipline page on May 23, 2014.

The Disciplinary Review Panel of the American Academy of Actuaries ("Academy"), acting in accordance with the Academy's *Bylaws*, has reviewed the findings from the Actuarial Board for Counseling and Discipline ("ABCD") and a decision by a Disciplinary Panel of the Joint Discipline Council regarding Neil J. Savasta. The Disciplinary Review Panel has reviewed and approved the decision and hereby suspends Mr. Savasta from membership for a period of five years for materially failing to comply with Precepts 1, 3, and 4 of the *Code of Professional Conduct*.

Mr. Savasta was the responsible actuary for the June 30, 2008, and June 30, 2009 actuarial valuations of a postretirement benefit plan sponsored by a governmental entity. These valuations were performed under Governmental Accounting Standards Board Statement No. 45 ("GASB 45").

Precept 1, Annotation 1-1 requires that "An Actuary shall perform Actuarial Services with skill and care." Mr. Savasta materially violated Precept 1 with respect to these actuarial valuations in the following ways:

- The 2008 valuation was the first valuation Mr. Savasta prepared in accordance with GASB 45, yet he did not familiarize himself with the requirements of that standard.
- Mr. Savasta failed to adequately consider a number of relevant Actuarial Standards of Practice ("ASOPs"). Mr. Savasta was not aware of ASOP No. 6, *Measuring Retiree Group Benefit Obligations*, nor the requirements of ASOP No. 41, *Actuarial Communications*.
- Mr. Savasta did not provide appropriate supervision of the process. Mr. Savasta did not effectively implement and maintain the recommendations contained in a 1998 ABCD letter counseling him to ensure that work performed under his supervision is performed with skill and care.

Precept 3 requires that "An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice." Mr. Savasta materially violated Precept 3 in the following ways:

- Mr. Savasta failed to follow ASOP No. 6. Based on the facts and circumstances, it was found that (references are to ASOP No. 6 sections as in effect at the time):
  - The use of a single per capita claims rate for all ages was inappropriate (Section 3.4.7).
  - The use of a single health-care cost trend rate for all years failed to show adequate consideration of the key components of health-care cost trend (Section 3.8.1.a).
  - The use of a single retirement age assumption of 65 was inappropriate, particularly given the significant number of pre-age 65 retirees (Section 3.8.2.c).
  - Mr. Savasta failed to consider reflecting future mortality improvements (Section 3.8.2.d).
  - The valuation report did not identify the plan provisions, per capita claims rates, and other key data with sufficient clarity that another actuary qualified in this practice area could make an objective appraisal of the reasonableness of the actuary's work (Section 4.2).
- Mr. Savasta failed to follow ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*, as required by ASOP No. 6, Section 3.8.2. Based on the facts and circumstances, it was found that (references are to ASOP No. 35 sections as in effect at the time):
  - In addition to not satisfying ASOP No. 6, given the size and experience of the plan, the use of a single retirement age was not a reasonable retirement assumption under ASOP No. 35 (Section 3.3.5.a).
  - Mr. Savasta failed to consider whether the availability of the employer's pension plan was a relevant factor in setting the retirement assumption (Section 3.5.1.c).
- Mr. Savasta failed to follow ASOP No. 41, as the communication of the valuation results did not identify the actuary responsible for the work (Section 3.1.4), despite the fact that this issue was raised in the 1998 ABCD counseling letter to Mr. Savasta.

Precept 4 requires "An Actuary who issues an Actuarial Communication shall take appropriate steps to ensure that the Actuarial Communication is clear and appropriate to the circumstances and its intended audience, and satisfies applicable standards of practice." Mr. Savasta materially violated Precept 4 in the following ways:

- As noted above, Mr. Savasta failed to sign the two actuarial valuation reports that are the subject of this action, despite the fact that he was the actuary responsible for those reports and despite the fact that similarly inappropriate conduct was identified in the 1998 ABCD counseling letter to Mr. Savasta.
- Mr. Savasta's reports did not provide adequate disclosures as required under ASOP No. 6 and ASOP No. 41.

Based upon the foregoing, Mr. Savasta's membership in the Academy is suspended for the next five years.

← CONTINUED FROM **PAGE 3**

assets equal to 100% of relevant pension obligations."

An Insurance Broadcasting story and a (subscriber-only) Bloomberg BNA story both discussed letters from the Pension Practice Council and the Pension Finance Task Force to congressional leadership on the risks of recently discussed pension proposals.

The *BenefitsLink Health & Welfare Plans Newsletter* and the Employment Matters Blog each published excerpts from the Academy's practice note *Minimum Value (MV) and Actuarial Value (AV) Determinations Under the Affordable Care Act (ACA)*.

A (subscriber-only) Best's Review feature story on lifetime income challenges included comments from Lifetime Income Risk Joint Task Force Chairperson Noel Abkemeier, Senior Life Fellow Nancy Bennett, and Senior Pension Fellow Donald Fuerst.

Deloitte's "NAIC Update Spring 2014" quoted Academy analysis on VM-20 and provided an update on Academy progress toward developing the 2014 VBT/CSO mortality tables and tables for PreNeed and Simplified Issue products.

The Social Security Committee's updated issue brief on *Quantitative Measures for Evaluating Social Security Reform Proposals* was highlighted in the *BenefitsLink Retirement Plans Newsletter*. The newsletter also highlighted the notes of the Intersector Group's most recent meetings.

Update on International Standards of Practice

KEEPING UP WITH the ever changing landscape for insurance accounting and regulation, from both a domestic and international perspective, can be a full-time proposition. And understanding the roles that the U.S.-based actuarial organizations and the International Actuarial Association (IAA) play in ensuring the profession's voice is heard with respect to these issues is crucial.

The Academy hosted a webinar on May 23 to update members on the most recent developments and ongoing activities at the IAA on insurance accounting and regulation, as well as how the Academy interacts with the IAA.

William Hines, vice president of the Academy's Risk Management and Financial Reporting Council and vice chair of the IAA Insurance Accounting Committee, explained, "The Academy sends delegates to each and every IAA committee, subcommittee and task force, and several Academy leaders are in IAA leadership positions."

Hines was joined by former Academy President Dave Sandberg, the chair of the IAA's Insurance Regulation Committee, and Tom Herget, the former chair of the Academy's Risk Management and Financial Reporting Council Solvency Committee, who represents the Academy on the IAA's subcommittee on solvency. The three provided an update on IAA efforts around insurance accounting and regulatory issues, ranging from development of model International Standards of Actuarial Practice (ISAPs) to interaction with external international bodies through feedback mechanisms and memoranda of understanding.

Hines explained that the IAA has begun developing model ISAPs. One of the group's newest undertakings is a model standard on aspects of Enterprise Risk Management (ERM). "The project is underway," he noted, though it's not yet clear which topics will be covered. Academy representatives have been involved from the start, "all the way down to the development of the educational material," Hines said.

Herget updated listeners on three major projects of the IAA's Enterprise and Financial Risk Committee, including:

- A report on deriving value from Own-Risk Solvency Assessment (ORSA);
- International Actuarial Notes on ERM, expected within 20 months, and;
- An online reference library for ERM source material, which would be housed on IAA servers and available to members of the IAA's member organizations.

Sandberg discussed the IAA's efforts to develop what it is tentatively calling "the purple book," a resource for insurance regulators and interested parties on tools and emerging practices for managing financial and insurance risks and developing regulatory requirements. The book, Sandberg explained, would include chapters contrasting and comparing practices "for both banks and insurers, as well as how to qualify catastrophic risk, stress testing, and the value of professional actuarial standards," he said.

A complete recording of the session is available on the Academy website.