SEP 2013

Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy Works With Regulators on Key Actuarial Issues

IN A SEPT. 27 LETTER to the National Association of Insurance Commissioners (NAIC), the Academy described the many ways its mission aligns with regulators and their goals. As the home for actuarial professionalism, the Academy has long worked to serve both the public and the U.S. actuarial profession, describing this mission as "intended to support the objective of regulators to protect and assist the public." The letter was sent in response to a request for comments to a discussion draft paper of the Joint Qualified Actuary (A/B/C) subgroup released Aug. 15.

Academy professionalism activities that support this mission include the Committee on Qualifications, which promulgates the U.S. Qualification Standards (USQS); the Actuarial Standards Board (ASB), which promulgates the profession's actuarial standards of practice (ASOPs); and the Actuarial Board for Counseling and Discipline (ABCD), which counsels and disciplines credentialed actuaries.

These activities support and enhance the Academy's commitment to the public, shown in its work with state and federal legislators, which provides an objective and unbiased perspective on actuarial issues. The letter explores topics related to regulator concerns, including expressing Academy respect for regulators and their work and a desire to understand and work with them. The letter gives specific examples of Academy efforts to recognize

SEE **REGULATOR LETTER,** PAGE 11

126 Years of Experience and Service in 65 Academy Leadership Groups

THANKS TO ALL MEMBERS who took the time to vote in the Academy's 2013 election for regular directors, now complete. Congratulations to Albert Beer, Thomas Campbell, Audrey Halvorson, and Annie Voldman.

Together the elected candidates bring more than 126 years of experience and have served in leadership positions for more than 65 different Academy groups, as well as several leadership roles in other organizations.

The Academy received a record number of votes this year with 21.4 percent participation, for a total of 3,844 members. Although this may seem unusual to some, given the four candidates for four openings, it actually shows how well the process worked.

It is important to remember two critical components of the Academy election for regular directors: 1) the goal of the election for the Academy; and 2) the ballot as only the final step after a long, highly inclusive process in which all members were given the opportunity to participate in choosing the candidates.

The complex fiduciary duties of the Board of Directors, together with the responsibility of ensuring the Academy achieves its mission, require that the goal of the election process be to make certain that the slate of candidates brings deep expertise and experience as well as significant knowledge of the Academy's history, mission,

SEE **ELECTIONS,** PAGE 2

CALENDAR

OCTOBER

1 CUSP meeting, Washington

1–2 Academy Board of Directors meeting, Washington

16 The Academy Capitol Forum: Meet the Experts Webinar Series webinar

18 Deep Dive into NAIC Health Annual Statement's New Exhibit 3A on Health Care Receivables webinar

20–23 CCA Annual Meeting, San Antonio

20–23 SOA Annual Meeting, San Diego

31 Professionalism webinar

NOVEMBER

3–6 CAS Annual Meeting, Minneapolis

4 Academy Annual Meeting and Awards Luncheon, Minneapolis

11–14 2013 Life and Health Qualifications Seminar, Arlington, Va.

13–14 P/C Effective Loss Reserve Opinions Seminar: Tools for the Appointed Actuary, St. Louis

15–16 NAAC meeting (Academy), Miami Beach, Fla.

21–24 NCOIL Annual Meeting, Nashville, Tenn.

DECEMBER

11 Executive Committee meeting, Washington

15–18 NAIC Fall National Meeting, Washington

JANUARY 2014

14–15 Academy Board of Directors meeting, Washington

MARCH 2014

6–9 NCOIL Spring Meeting, Savannah, Ga.

23–26 Enrolled Actuaries Meeting, Washington

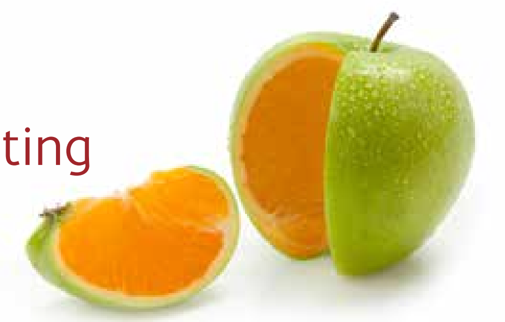
29–April 1 NAIC Spring National Meeting, Orlando, Fla.

30–Apr 1 Ratemaking and Product Management (RPM) Seminar, Washington

30–Apr 4 ICA 2014 (International Congress of Actuaries), 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*



Freakonomics Author to Speak at Annual Meeting

IF YOU'VE EVER WONDERED how your child's name will affect his or her job prospects or why so many predictions go awry, the Academy's keynote speaker will have some answers for you.

Stephen J. Dubner, award-winning writer, journalist, and radio and TV personality known as a co-author of *Freakonomics* and *Superfreakonomics*, will speak at the Academy's Annual Meeting and Awards Luncheon on Nov. 4 in Minneapolis. Dubner hosts a blog with co-author Steven D. Levitt called *Freakonomics*, which links to the radio program that he hosts on NPR stations around the country.

Held in concert with the CAS Annual Meeting, the Academy Annual Meeting will also feature those honored with receiving the Robert J. Myers Public Service Award, the Jarvis Farley Service Award, and Awards for Outstanding Volunteerism. President Cecil Bykerk will announce new regular directors and welcome them to the Academy Board of Directors, and a ceremony will be held to install Tom Terry as the Academy's 49th president.

Elections, continued from Page 1

and priorities. Additionally, the candidates must be representative of Academy membership, which requires balance across practice areas.

It is clear from both the candidate biographies and the record number of votes this year that the Academy's process yielded a slate of candidates who meet these demanding criteria.

At the same time, it is equally important for the Academy's process to be inclusive. That's why the Academy implemented an aggressive communications campaign from February through July involving all Academy channels that invited members repeatedly to get involved by nominating themselves or others, petitioning to get on the ballot, or simply staying informed about process. During this process members had several opportunities to make choices.

IN THE NEWS

Academy Senior Pension Fellow Donald Fuerst was quoted in a *Detroit Free Press* article analyzing Detroit's financial history in light of the city's bankruptcy filing.

Academy President-Elect Tom Terry was quoted in a *Kiplinger* article, "Add an Annuity to Your Retirement-Income Mix," that ran on Yahoo! Finance.

The Yahoo! Finance Canada article "A Day in the Life of an Actuary" profiled Academy member Alex Tava, managing actuary for Cirdan Health Systems and Consulting in St. Paul, Minn.

The Academy Pension Practice Council's issue brief "The 80% Pension Funding Myth" was referenced in a CNS News article, "Ill. Governor to Legislators: No Pay Until You Fix Nation's Worst Pension System."

A *Contingencies* story about the implications of the Affordable Care Act on young adults was cited in the *Oklahoman* article "Obamacare's Impact on Rates May Undermine Rationale for Its Existence" and *The Weekly Standard* article "Never Surrender."

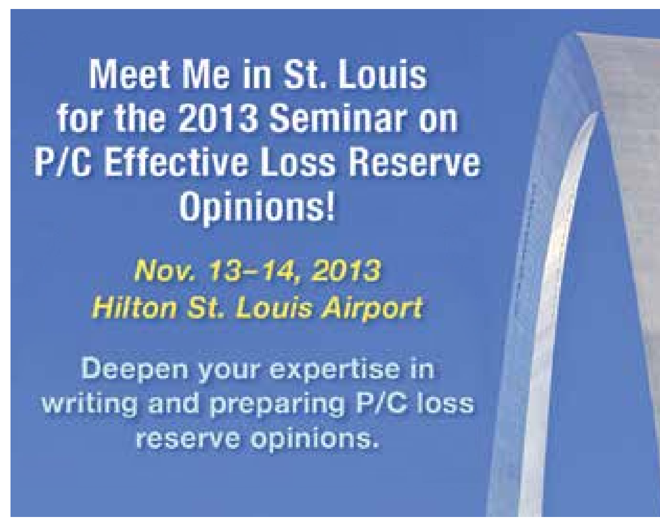
Academy Senior Health Fellow Cori Uccello was quoted in a Reuters story "In Obamacare rate debate price gets political," that was featured on Lifescript.com.

Oct. 18, Deep Dive into NAIC Health Annual Statement's New Exhibit 3A on Health Care Receivables Webinar

Oct. 31, Professionalism Webinar—
Where the Rubber Meets the Road: Applying the Code of Professional Conduct and ASOPs in Your Daily Work

PROFESSIONALISM BRIEFS

- Academy member **Laura Cali** has been appointed insurance commissioner and chief actuary at the Oregon Department of Consumer and Business Services, Insurance Division in Salem, Ore.
- Actuarial Board for Counseling and Discipline Chair **Bob Rietz** delivered a presentation at the fall meeting of the Columbus (Ohio) Actuarial Club on Sept. 5.
- Academy President **Cecil Bykerk** delivered the keynote address, "Topics of Interest at the American Academy of Actuaries," at the annual meeting of the Tri-State Actuarial Club (Indiana-Kentucky-Ohio) in Columbus, Ohio, on Sept. 16. Approximately 180 people were in attendance. **Lloyd Spencer**, a member of the Academy's Council on Professionalism, delivered an address on actuarial professionalism during the annual meeting luncheon.



PROFESSIONALISM COUNTS

How Are New ASOPs Developed?

The Actuarial Standards Board (ASB) met Sept. 19-20 in Washington to review three Actuarial Standards of Practice (ASOPs) proposed for revision. Two pertain to pension, and one, on catastrophe modeling, is for all areas of practice. Two of these proposed drafts are expected to be exposed for comment soon. Within the past year, the ASB has approved seven ASOPs for exposure.

When the ASB exposes a draft, it is presenting a proposed new standard or a revision of an existing standard for public comment. Drafts are usually open for comment for 60 to 90 days. The ASB considers comments received according to guidelines and posts all of them on the ASB website. This transparency allows actuaries and others to see reactions to proposed standards.

ASOPs not only provide practical guidance to actuaries but also assure regulators and the general public that actuaries are performing their work in a manner that protects the public interest. As ASOPs are a central focus of the actuarial profession, the ASB strongly encourages actuaries to comment on exposed ASOPs in their area of practice. Such feedback is highly valued and helps improve the standards-setting process and the profession overall.

To review and comment on current exposure drafts, see the ASB website. This is your opportunity to help shape the standards that will guide your actuarial practice. Please share your thoughts.

An Actuarial Perspective on TRIA

ACADEMY CASUALTY Vice President Mike Angelina and Academy staff met with House Financial Services Subcommittee on Housing and Insurance staff about the current debate over reauthorizing the Terrorism Risk Insurance Act (TRIA). With an expiration date of Dec. 31, 2014, for the act, Congress has begun holding hearings to gather information on the current market for terrorism risk insurance. One of the key questions still to be addressed is whether Congress will begin its development of a TRIA replacement by looking to the current law or starting anew.

Subcommittee staff questioned whether government involvement was needed for terrorism insurance availability in the current economy. They wondered whether government backing was unnecessarily protecting the terrorism risk insurance marketplace. Academy representatives pointed out some of the unforeseen effects that could be felt in the absence of TRIA, noting that financial weakness in enough industries could cause the economy as a whole to falter.

> Academy representatives noted that TRIA provides a framework that enables affected areas of the economy to recover more quickly in the event of an attack.

One argument against TRIA is that an event big enough to require substantial assistance would ultimately involve federal government funding regardless of TRIA's existence. Academy representatives noted that TRIA provides a framework that enables affected areas of the economy to recover more quickly in the event of an attack.

As TRIA hearings proceed through the rest of the year and into 2014, the Academy will continue to serve as a resource to Congress for actuarial technical expertise.

Academy Supports TRIA Renewal, Suggests Revisions

INSURING LOSSES caused by acts of terrorism requires an approach to risk that is difficult to quantify, because of the unpredictable nature and potential magnitude of such events. The Academy's Terrorism Risk Insurance Subcommittee analyzed these complex aspects of terrorism risk insurance and responded to the specific questions posed by the Treasury Department in the subcommittee's Sept. 16 letter to the President's Working Group on Financial Markets.

In its general comments, the subcommittee notes that terrorism risks do not meet all six characteristics of an insurable event. The potentially large insured losses associated with acts of terrorism have required a public-private partnership to enable private-sector participation. Since 2002, the federal Terrorism Risk Insurance Act (TRIA) has served as the framework for terrorism risk insurance coverage, although more than 10 years after its creation, some have questioned its necessity.

"TRIA established a framework to maximize private-sector capital and help with an orderly government aid process in the aftermath of a large attack," the subcommittee wrote. "Affordability depends on price stability, which is not possible with sparse data and judgment-based rates. The termination of the TRIA program would limit current capacity."

The subcommittee went on to address questions focused on possible consequences of ending the TRIA program on Dec. 31, 2014, including the current availability and affordability of terrorism risk insurance generally and in specific categories and the anticipated economic effects of its discontinuation. The Academy also provided insight into the insurance industry's ability to provide terrorism coverage in the absence of a TRIA-like program, factors that help or hinder its availability and affordability, and the market demand for this type of insurance.

Workshops Enliven Casualty Loss Reserve Seminar

THE 2013 Casualty Loss Reserve Seminar took place Sept. 15-17 in Boston. Each year, this seminar focuses on loss reserving and gives participants opportunities to fulfill continuing education and other requirements for their work.

The Joint Program Committee for the Casualty Loss Reserve Seminar, which includes members of the Casualty Actuarial Society and the Academy, put together a slate of sessions that covered a range of topics, including variability in reserve ranges, climate change, validating loss reserving models, mortgage insurance reserving, innovation, predictive analytics, regulations, professional development, reinsurance, and enterprise risk management. For the second year, the Joint Program Committee offered workshops the day before the official start of the meeting, making the seminar more hands-on.

Attendees of this seminar include risk and insurance managers, actuaries, actuarial students, accountants, underwriters, insurance regulators, and others who need to know about the most recent and traditional approaches to loss reserve methods and models.

Post-NAIC Webinar Addresses Range of Regulatory Activities

ACADEMY MEMBERS seeking a meaningful recap and analysis of the Summer NAIC meeting got it during a Sept. 19 "Post-NAIC Update/PBA webinar." Moderated by Dave Neve, chairperson of the Academy's Financial Soundness/ Risk Management Committee, presenters discussed Life Actuarial (A) Task Force (LATF) activities, nonvariable annuity reserve developments, and professionalism initiatives.

Mike Boerner, chairperson of the NAIC's LATF, Emerging Actuarial Issues (E) Task Force, and the newly formed PBR Review (EX) Working Group, started off the webinar by discussing documents recently adopted by the PBR Implementation (EX) Task Force: the PBR implementation plan and legislative and educational briefs.

Boerner characterized the implementation plan as a dynamic document to be updated based on new information and developments. He discussed the implementation plan charges to various groups and the target date for deliverables of 1/1/2016, which he indicated was the estimate for the earliest possible start date for the Valuation Manual.

He also discussed PBR training and the adoption status of the Standard Valuation Law/Valuation Manual in state legislatures.

Jim Lamson, chairperson of the Academy's Reserves Work Group, provided background on the Annuity Reserves Work Group (AWRG) and then focused on some of the group's efforts to develop PBR for non-variable annuities (VM-22).

He described many of their proposals as tentative because they deal with relatively new concepts, some of which are being assessed in a field test under way at the Kansas Insurance Department. The AWRG is not involved in the design or performance of the test but will have the opportunity to examine the results. Lamson also discussed various models and formulas. "What we are doing with annuity reserves is consistent with the principle-based approach the Academy used for life products," he said.

> "What we are doing with annuity reserves is consistent with the principle-based approach the Academy used for life products."
>
> ***— Jim Lamson, chairperson of the Academy's Reserves Work Group***

Cande Olsen, vice president of the Life Practice Council, reported to participants the various Academy and ASB professionalism activities related to the NAIC, including reports to LATF, the Health Actuarial Task Force, and the Casualty Actuarial and Statistical Task Force. These reports explained to regulators efforts to improve communications surrounding the counseling and discipline process undertaken by the Council on Professionalism (COP) Task Force on Discipline.

Regulators were also made aware of currently exposed ASOPs called *PBR for Life Products*, *Modeling*, and *Credibility Procedures*; information on the Actuarial Board for Counseling and Discipline (ABCD) process, statistics, and requests for guidance; and comments from members on potential changes to the Qualification Standards.

Additionally, Olsen talked about the COP-hosted breakfast with the regulators to respond to their concerns on professionalism matters discussed at previous meetings and webinars. Representatives from the Actuarial Standards Board, ABCD, Committee on Qualifications, and COP attended.

"This is the third meeting at which we have hosted this breakfast, and we hope to do it at many more," Olsen said.

The webinar wrapped up with panelists answering participant questions on issues related to VM-22, PBR state adoption in 2014, the PBR practice note and ASOP, and implementation time lines.

Academy Work Highlighted at Life PBR Seminar

LIFE PBR: THE NEW VALUATION WORLD event Sept. 24-25 in Indianapolis put Academy PBR work on high display throughout the sessions and workshops. Dave Neve, chairperson of the Academy's Life Financial Soundness/Risk Management Committee, welcomed attendees and provided an overview and general background of VM-20, which outlines PBR for life insurance. Other Academy members who presented at the event included:

- Mary Bahna-Nolan, chairperson of the Academy Life Experience Subcommittee, who discussed mortality assumption development and changes in requirements;
- Kerry Krantz, member of the Academy Life Financial Soundness/Risk Management Committee, who focused on the NAIC's implementation plans for PBR;
- Allan Ryan, member of the ASB Task Force on Principle-Based Reserves, who explained how the new Actuarial Standard of Practice for life insurance PBR will support VM-20;
- Karen Rudolph, chairperson of the Academy PBR Impact Task Force, who explored how the VM-20 practice note will help actuaries implement PBR for life insurance.

Breakout sessions gave participants an opportunity to collaborate with peers and discuss strategies for dealing with topics including reinsurance, small company issues, modeling efficiency techniques, the stochastic and deterministic exclusion tests, the net premium reserve, and setting experience assumptions.

This interactive two-day seminar took place as seven states have adopted PBR and many more look to adopt it in 2014.

FAQs Revised for Interest Rate Generator

A REVISED FREQUENTLY ASKED QUESTIONS document was released in September to help actuaries better understand updates to the Academy's Interest Rate Generator (AIRG) and pending adjustments. Developed by the Joint Economic Scenario Generator Project Oversight Group of the Academy and the Society of Actuaries (SOA), the FAQs cover topics such as the status of the AIRG, technical changes to the 2010 release of the AIRG, additional information available on the Academy and SOA websites, documentation on the equity scenario generator, methods used to pick the 1,000-scenario subset from the 10,000-scenario subset, and NAIC requirements regarding the use of the scenario picking tool.

The Academy and the SOA have joined resources to manage the economic scenario generators used in regulatory reserve and capital calculations. The latest version of the interest rate and equity generator is now on the SOA website.

C3 Work Group Presents to NAIC

LINK RICHARDSON, chairperson of the Academy C3 Work Group, presented "C-3 Phase 1 Alternatives" on Sept. 18 to the NAIC Life Risk-Based Capital (E) Working Group. Richardson discussed the ways C-3 phase 1 differs from other phases and processes and then listed a range of alternatives to update C-3. Work group recommendations covered short-term to long-term possibilities, with the long-term including 2015 RBC calculations and beyond. Implementation issues—such as phased implementation, need for field testing, and resources—were also discussed.

IWG Practice Note Updated

THE LIFE ILLUSTRATIONS WORK GROUP (IWG) has updated a practice note to reflect the current practices actuaries use to comply with Actuarial Standard of Practice No. 24, *Compliance With the NAIC Life Insurance Illustrations Model Regulation*, which was revised in May 2011. The practice note answers specific questions related to experience assumptions, investment return factors, mortality, two-tiered products, reinsurance, and sample certifications, to name a few.

MV/AV Explored in Affordable Care Act Webinar

MEMBERS SEEKING TO UNDERSTAND further details of Affordable Care Act (ACA) implementation participated in an Academy webinar Sept. 20. "Minimum Value and Actuarial Value Determinations Under the Affordable Care Act" examined these issues as well as questions on the role they play in determining plan design compliance with the ACA. Questions submitted from webinar participants will help shape revisions to the Academy's practice note on minimum value (MV) and actuarial value (AV) currently in development.

Academy presenters included Catherine Jo Erwin, member of the MV/AV Practice Note Work Group; John Stenson, chairperson of the MV/AV Practice Note Work Group; and Dale Yamamoto, member, MV/AV Practice Note Work Group. Senior Health Fellow Cori Uccello moderated the webinar.

"The AV and MV calculations help support important provisions of the ACA," said Stenson. "We need as a profession to make sure we constantly revisit the assumptions that underlie the base data and were used to develop the calculations."

He went on to detail the similarities and differences between MV and AV, such as their use to illustrate the percentage of services covered by a benefit plan for an overall "standard" population; the way they account for varying plan designs; and their usefulness in accounting for variables in plan designs and their effects. Additionally, he illustrated the differences between MV and AV in terms of covered populations, benefits plans, underlying data, and thresholds.

Stenson covered IRS requirements for employer-sponsored plans, including three ways that MV may be determined:

- Using an MV calculator;
- Applying safe-harbor provisions;
- Through an independent actuarial certification.

New requirements should be issued in 2015, and Stenson encouraged actuaries to stay on top of regulatory developments to ensure compliance. He also talked about three areas emphasized in the practice note:

- Adjustments for a nonstandard plan design that can be calculated using the data contained in the calculator;
- Adjustments for a nonstandard plan design when the calculators do not contain the necessary data;
- Value-based insurance designs, tiered copays or other cost sharing, and wellness benefits.

Erwin discussed plans that either through calculator limitations or unique or innovative design features could not be accommodated by the calculators. She went through several specific considerations related to these limitations, including adjustments to input or output, material effect, and data hierarchy, and gave examples of how to handle these situations.

She also talked about value-based plan designs and other overall technical guidance. "You have to verify the reasonableness of the results," she said. "The calculators can produce counterintuitive results. The actuary has flexibility to make adjustments in these cases."

The actuary also has access to design-based safe harbor checklists. Yamamoto talked about IRS guidance in this area and three specific plans for 2014.

"If you have a design richer than this design, you meet the safe harbor design rules," he said. "Go over each one. If you don't use MV or the safe harbor rule, then you do need an actuarial certification. This is also true if it is a nonstandard design that doesn't fit into the calculator."

Yamamoto pointed out that such a certification would need to comply with ASOP 41 and that copies should be retained by the plan's sponsor or a qualified health plan. He also recommended that actuaries keep their own copies when they issue such reports. Before the panelists discussed more specific examples of MV/AV in action, Yamamoto said the exposure draft of the practice note contains recommended certification language for various reports related to MV/AV calculations or plan designs.

"When you are signing the statements, you are subject to the Qualification Standards," he said. "You must satisfy the basic continuing education requirements. Are you qualified to sign a healthcare statement? Do you have basic education or comparable experience? Include that qualifier in any statement signed by you."

Committee Suggests Clarification on MLR Report

THE ACADEMY'S MEDICAL LOSS RATIO (MLR) Regulation Work Group commented on a Centers for Medicare & Medicaid Services (CMS) proposed report and associated instructions, specifically that CMS should be explicit in the way certain instructions apply to Medicare MLR in Medicare Advantage and prescription drug plans. The proposed report and instructions are based on the May 23 CMS final rule on Medicare MLR requirements in the Social Security Act.

Currently, Page 1 of the report mentions Center for Consumer Information and Insurance Oversight archives as additional resources for "commercial MLR regulations, guidance, reporting instructions, and other resources" but does not cite Medicare MLR. The Academy encouraged CMS to clarify that the regulations apply to both commercial and Medicare MLR or to indicate specific instances when that is not the case.

The committee also pointed out various questions that need further clarification.

Large Group Medical Webinar Analyzes New Practice Note

MEMBERS WHO NEEDED ANSWERS to very technical large group medical questions got them, question by question, in the Sept. 27 Academy webinar on the recently released *Large Group Medical Insurance Reserves, Liabilities, and Actuarial Assets* practice note.

Darrell Knapp, chairperson of the Large Group Medical Business Practice Note Work Group, began by discussing the purpose of practice notes in general. Compared with Actuarial Standards of Practice (ASOPs), which are prescriptive and define appropriate practice, practice notes are developed by Academy work groups to be informative and not prescriptive and to reflect observations of current practices and emerging issues.

"The Academy can create a practice note in a much shorter time frame on new issues to get some actuarial literature out there," Knapp said. "I look at practice notes as a resource for answering: How might other actuaries think about this issue?"

Cheryl Allari, member of the Large Group Medical Business Practice Note Work Group, went over the general questions addressed in the practice note and said it "tries to highlight issues and considerations for the valuation actuary." Specifically, it focuses on such an actuary's responsibilities under the following several National Association of Insurance Commissioners (NAIC) documents: *Actuarial Opinion and Memorandum Regulation, Model Reserves Model Regulation, Health Reserves Guidance Manual, Health Annual Statement Instructions,* and *Accounting Practices & Procedures*.

The practice note also focuses on ASOPs related to determining reserve levels and other actuarial assets and liabilities for large group medical insurance and Generally Accepted Accounting Principles (GAAP) accounting, with a primary focus on statutory accounting. The practice note is not intended to cover liability estimation for self-funded employer groups.

Allari and Knapp talked about each of 32 questions, clarifying issues such as:

- Large group medical insurance business;
- Funding arrangements;
- Scope of actuarial opinion;
- Claim processing environment considerations;
- Other operational and product issues;
- Regulatory and legislative considerations;
- Definitions of incurred and paid dates;
- Claim reserve margins;
- Asset adequacy analysis;
- Premium deficiency reserves;
- Other liabilities and considerations.

Panelists also answered attendee questions about subjects such as reasons for not including self-funded employer groups in the practice note, which is more focused on statutory accounting. "Some general questions around the claims processes are wholly applicable, but some accounting requirements may be different," Knapp said. Another questioner asked about the likelihood of a practice note on ACA financial considerations, and panelists indicated they would discuss the possibility.

Pension Committee, Task Force Address ASOP No. 4

BOTH the Pension Committee and the Pension Finance Task Force submitted comments on revisions to ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*.

The Pension Committee said the current draft addresses many of its previous suggestions, and it proposed additional changes involving output smoothing, disclosures, definitions, and other terminology and formatting issues. "While it may be premature to provide any significant guidance on output smoothing methods, we believe ASOP No.4 should at least include them within the discussion of 'allocation procedures' and the related required disclosures," the committee said.

The committee commented extensively on disclosure requirements in Paragraph 4, especially those related to unfunded actuarial accrued liability during the amortization period, the impact of the plan's contribution allocation procedure on future plan contributions and funded status, and changes in assumptions and methods.

"Finally, we support the ASB's efforts to coordinate ASOPs No. 4 and No. 6," the committee said. "Consequently, we encourage the ASB not to finalize ASOP No. 4 before considering any related comments on ASOP No. 6."

It also pointed out the need for consistency among ASOPs. "Finally, we support the ASB's efforts to coordinate ASOPs No. 4 and No. 6," the committee said. "Consequently, we encourage the ASB not to finalize ASOP No. 4 before considering any related comments on ASOP No. 6."

The Pension Finance Task Force noted that its "primary concern continues to be with just one of those topics, the proper measurement of pension obligations." To that end, the task force focused its comments on the use of the term "market-consistent present value" versus "market liability." The task force recommended that "market liability" be used instead for greater consistency and clarity and suggested that the ASB review ASOP No. 6 for this terminology as well.

ASOP No. 6 Exposure Draft Examined

ON AUG. 30, the Joint Committee on Retiree Health sent comments to the Actuarial Standards Board on a second exposure draft of ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Prefunding Contributions*.

The committee responded to six questions asked by the ASB and then went on to address additional areas in the ASOP. A year ago, the committee had commented at length on the exposure draft of ASOP No. 6 and said that many of its initial concerns have been addressed in the revised version. However, it did point out remaining concerns surrounding terminology and other issues.

"There are fundamental differences between pension and retiree health, and our comments focus on the need for ASOPs to recognize those differences," the committee said. "We continue to have concerns that ASOP No. 4 language regarding pensions is used more than is needed within ASOP No. 6 and that the problem of implicit subsidies (and age-specific costs for groups in pooled health plans) is not sufficiently addressed."

In section-by-section comments, the committee noted needed distinctions between defined contribution and defined benefit retirement plans and the use of definitions, such as "cost" versus "periodic cost," "implicit subsidy," "obligations," and "participating dependents."

The committee also stressed that revisions to both ASOP No. 4 and ASOP No. 6 should be consistent where necessary.

Pension Comittee Comments on Form 5500

THE MANDATED ELECTRONIC FILING of Form 5500 has many advantages but raises concerns, particularly over transmission errors, according to a recent Pension Committee letter to the IRS. The letter focuses on Schedules SB and MB, which contain the actuarial information for single-employer and multiemployer plans and are prepared and signed by the plan's enrolled actuary.

The problem is that plan sponsors often use a separate firm instead of the enrolled actuary's firm to file electronically. The committee expressed grave concern over this process, because a manual input error can occur and the enrolled actuary cannot review the transcription before it is submitted electronically. Correcting these mistakes requires significant time and expense, according to the committee. The letter suggests comparing a sample of the electronic filings with the PDF versions of the Schedules SB/MB forms contained in the filing packet. If the sample reviews demonstrate a level of discrepancy beyond which the reviewing agency is comfortable, the committee suggests creating a system that allows an enrolled actuary to directly submit these scheduled forms.

Pension Actuaries and the Discipline Process

BY ROBERT J. RIETZ

SECTION 10 OF ARTICLE X of the Academy bylaws requires the Actuarial Board for Counseling and Discipline (ABCD) to report annually on complaints it has received and processed. Section 10 also authorizes the ABCD to publish educational materials. What follows is my attempt to flag a particular concern about pension actuaries and the discipline process.

The table below summarizes complaints to the ABCD and its responses in the period from March through August 2013. The table reflects the status of a complaint as of Sept. 1, 2013, with two exceptions. The complaints disposed by counseling and the complaints referred to participating organizations occurred during these six months, not on Sept. 1. Also, the table does not reflect two complaints that were dismissed by the ABCD chairpersons in this period.

Step in the Complaint Process	Number of Complaints	Complaints Involving Pension Actuaries	Complaints Involving Public Pension Actuaries
Complaint and SA response awaiting decision by chairs	2	2	2
Investigator's report pending	4	1	1
Awaiting SA response to investigator's report	1	1	1
Reading for September meeting	4	4	0
Complaints suspended during litigation	3	2	0
Disposed by counseling	7	6	4
Recommended discipline	2	2	2
Total	23*	18	10

(SA denotes the subject actuary in the discipline process.)
* *Three actuaries had multiple complaints.*

Something that jumps out at me when I look at the table is the preponderance of complaints concerning pension actuaries. Historically, complaints to the ABCD have been roughly representative of the number of actuaries practicing in a particular discipline. (For various reasons, affiliation in a particular area of actuarial practice can be difficult to measure exactly—some actuaries practice in more than one discipline, and the differentiation between life and health actuaries is fluid.)

The number of pension actuaries can be estimated crudely by adding together about 4,000 active enrolled actuaries and approximately 400 to 600 public pension actuaries, subtracting roughly 100 to 200 public pension actuaries who are also enrolled actuaries. The result is somewhere around 4,300 pension actuaries.

The Academy's website states that there are roughly 17,000 actuaries who are credentialed members of at least one of the five U.S. actuarial organizations. A quick look at the table and my arithmetic suggests that about 25 percent of credentialed U.S. actuaries, those in the pension practice area, represent 78 percent of the complaints in the ABCD's discipline process from March through August 2013.

Each complaint received by the ABCD is extremely dependent on its own unique facts and circumstances, so I can't discern an underlying theme from the nature of these 23 complaints. Most of the complaints are related to practice, but conduct represents about a quarter of the complaints. About half of the pension complaints were about public pension actuaries. There are also no common demographics among the 23 complaints. Judging from the year that these actuaries received their designations, they are both young and old, working in large firms and as sole practitioners. They are mostly male. Most of the complaints were filed by other actuaries, which is usually the case. These data have prompted some questions in my mind:

- Is this concentration of pension actuaries a random event, or does it reflect structural issues?
- Is this phenomenon partially caused by the 2008 financial crisis? If so, why is it occurring almost five years later?
- Have pension actuaries been subject to unique pressures recently?
- Are there higher expectations for pension actuaries, or are they bigger targets?
- Why do public pension actuaries seem to be over-represented in the data?
- Are pension Actuarial Standards of Practice set at a different level than those for other disciplines? If so, why hasn't this issue surfaced earlier?
- Have pension actuaries become more cognizant of their obligations under Precept 13? If so, why hasn't this been observed in the other disciplines?

Some readers may take comfort in the very low percentage of actuaries in the discipline process at all and see an annual rate of about .2 percent as proof that the actuarial profession has extremely few "bad apples." Critics may claim that the number merely reflects the reluctance of many actuaries to file a complaint, despite their responsibilities under Precept 13 of the Code of Professional Conduct.

While I firmly believe our professional behavior is exemplary, I do wonder if 99.75 percent of us are *that* good. I also am puzzled by the preponderance of pension actuaries in current complaints to the ABCD and would be interested in hearing other perspectives on this. Responses may be sent to ABCDUpdatearticle@actuary.org.

Robert J. Rietz is chairperson of the Actuarial Board for Counseling and Discipline.

Regulator Letter, continued from Page 1

the importance of regulators as representatives of the public interest by including them in:

- Invitations to attend Academy seminars, webinars, and other events free or at a discount;
- Opportunities to join Academy committees, work groups, and task forces;
- Special events designed for regulators, such as the NAIC regulator forums to facilitate open dialogue on issues that matter to the regulatory community.

The letter emphasizes that the Academy has in place significant processes to ensure that its work does not present the perspectives of those who employ actuaries but rather furthers its purpose of providing objective, independent actuarial analysis to decision-makers. Strict practices are used to enforce conflict of interest policies for Academy volunteers, provide adequately diverse representation on committees, and ensure adherence of Academy committees and work groups to Academy *Guidelines for Making Public Statements* and *Guidelines for Developing Practice Notes*.

For specific questions related to the definition of "qualified" actuary, the Academy gives detailed responses. As the largest cross-practice designation in the United States, the M.A.A.A. designation covers more U.S. practicing actuaries than any other credential, and it requires that its members adhere to standards of conduct, qualification, and practice.

The value of the credential is found in the members who adhere to these high standards and in the public's knowledge that the credential requires that adherence. Those without such credentials who call themselves actuaries are not bound by any of these standards. "Any other definition of 'qualified actuary' without regard to a credential would require regulations to embody all of the concepts of the Code of Professional Conduct, the USQS, the ASOPs, and the procedures involved in affording due process to actuaries as set forth in the ABCD Rules of Procedure."

Standards of conduct, qualification, and practice applicable to Academy members are never meant to supplant the law but to provide a fundamental professional framework that offers value for those who rely on actuarial services. Regulator input and commentary are specifically sought and welcomed.

The letter concludes by noting that the Academy is committed to encouraging its members to improve all aspects of their work and stands ready to work with regulators to address their needs and concerns in a direct and effective manner. Academy codes and requirements exist to address such issues—as well as to provide extensive outreach and educational efforts to make members aware of these high professional standards.

Additionally, the Academy agrees with the discussion draft that current efforts with the NAIC should continue, that "regulatory actuaries and NAIC staff should work together with the ASB and the ABCD to improve actuarial standards and disciplinary process, including counseling."