OCT 2015

Actuarial UPDATE

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

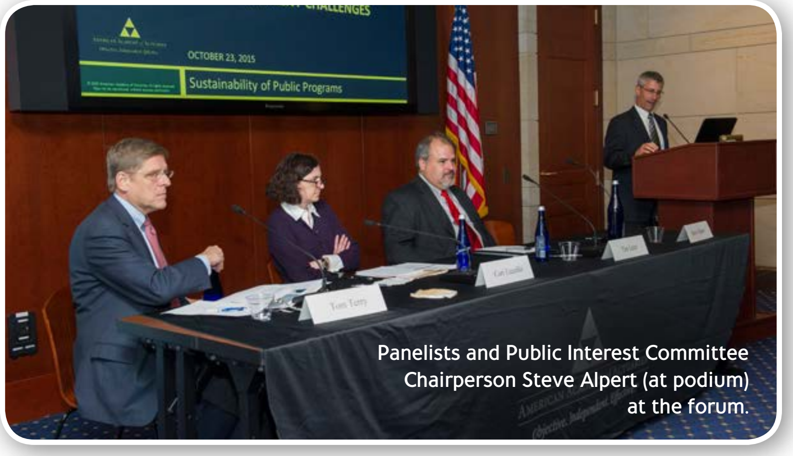
CELEBRATING 50 YEARS

American Academy of Actuaries

Objective. Independent. Effective.™

Academy Hosts 'Aging Securely' Forum

THE ACADEMY THIS MONTH hosted an "Aging Securely" forum on Capitol Hill in Washington that covered a variety of topics related to lifetime income, pension, and long-term care (LTC) issues, and an introduction to the Academy's Aging Securely initiative. The Oct. 23 program's presenters also looked at the sustainability of public programs such as Medicare and Social Security, and the Academy released its new Social Security Game and several lifetime income and LTC papers.



Panelists and Public Interest Committee Chairperson Steve Alpert (at podium) at the forum.

Academy President-elect Tom Wildsmith laid out the scope of the forum, including: financial security—the risk of outliving one's income; health security—will people have access to the health care they need as they grow older; and sustainability—making sure there are programs and policies in place to help with these issues long term.

Tom Terry, the Academy's immediate past president, said in introducing the forum that the aging population "represents a huge potential in this country. These programs enable people to live great lives as they get older. That's why, as actuaries, we feel compelled to lend our particular expertise and insights into their well-being."

Terry noted that sustainability is a "prime theme" for the Academy: "A lot of our work is committed to pointing out where things are working and where they are not ... [and to] root out those things that have unintended consequences of a particular policy objective or approach."

Lifetime Income

Mark Shemtob, a member of the Lifetime Income Risk Joint Task Force, presented a number of issues and challenges, noting that lifetime income issues include Social Security, defined benefits plans, or any kind of

SEE **AGING FORUM,** PAGE 12

NEW SOCIAL SECURITY GAME RELEASED

The Academy's Social Security Game, unveiled in conjunction with the Aging Securely Forum in Washington, offers a chance to explore options for Social Security reform and their impact on the program's long-term solvency. Play the game to learn about common Social Security myths, then explore options for reform and see how changes will affect younger workers, retirees, and the program's long-term health. Try your hand at www.actuary.org/playthegame.

Academy Marks 50th Anniversary at Next Month's Celebration

THE ACADEMY'S ANNUAL MEETING AND PUBLIC POLICY FORUM will be held Nov. 12-13 in Washington. It will focus on both public policy and professionalism, and many expert panelists and speakers will provide insights about what stakeholders and leadership see as the challenges ahead.

The focus on public policy and how the profession serves the public in the United States will be apparent in the agenda and the engaging speakers, which will include Gene Dodaro, comptroller general of the United States; Adam Hamm, commissioner of insurance at the North Dakota Department of Insurance and immediate past president of the NAIC; and Richard Berner, director of the Department of the Treasury's Office of Financial Research.

The meeting—part of which will celebrate the Academy's 50th anniversary—will include multiple practice area sessions, a limited-attendance interactive business-

SEE **ANNUAL MEETING,** PAGE 13

NOVEMBER

4 Webinar: Exploring Global Health Care Cost Drivers: Canada and Chile

9-12 Life and Health Qualifications Seminar, Arlington, Va.

(Space is full; please inquire about waiting list)

10 Webinar: Alternatives for Pension Cost Recognition

12-13 Academy Annual Meeting and Public Policy Forum and 50th Anniversary Gala, Washington, D.C.

DECEMBER

1-2 Seminar on P/C Effective Loss Reserve Opinions, Philadelphia

9 Webinar: Facing a Dilemma? The ABCD Can Help

To continue receiving the *Update* and other Academy publications on time, make sure the Academy has your correct contact information. Academy members can update their member profile at the member login page on the Academy website.

Academy NEWS Briefs

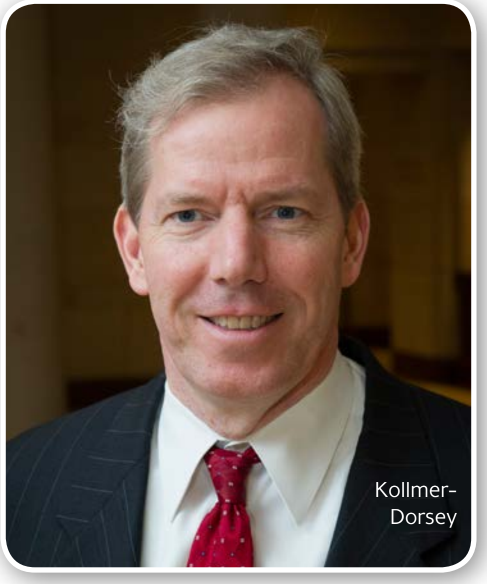
Paul Kollmer-Dorsey Joins Academy as General Counsel

PAUL KOLLMER-DORSEY has joined the Academy as general counsel and director of professionalism. He was formerly the general counsel, board secretary, and designated agency ethics official of the Broadcasting Board of Governors (BBG), the independent federal agency that oversees all non-military international broadcasting of the U.S. government.

Kollmer-Dorsey will manage and advise on all legal and professionalism matters that are core to the Academy's mission to establish qualification, practice, and professionalism standards for actuaries in the United States and, as part of his responsibilities, will support and supervise the services the Academy provides to the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline, the autonomous professionalism bodies that are housed at the Academy.

He also will support the Academy's continuing mission to provide independent and objective actuarial information, analysis, and education for the formation of sound public policy, with responsibilities for supporting the Academy's role, as the U.S. national actuarial association, to represent the professionalism interests of the U.S. actuarial profession nationally and globally.

"Paul has a truly exceptional background as a mission-driven legal adviser on governance, ethics, disciplinary, and regulatory compliance issues," said Executive Director Mary Downs. "He will be a tremendous asset to the Academy as we continue to advance our professionalism mission to serve the public and the U.S. actuarial profession."


Kollmer-Dorsey

A member of the Senior Executive Service, Kollmer-Dorsey served for six years as chief legal officer and board secretary to the BBG, which is composed of nine presidentially appointed, Senate-confirmed members. Prior to that, he served in executive and legal adviser positions to the disaster relief technology startup Global Relief Technologies Inc., in Portsmouth, N.H., and large multinational and national telecommunications companies including New Skies Satellites B.V. in The Hague and COMSAT in Bethesda, Md. He is a graduate of Stanford University Law School, where he was editor-in-chief of the Stanford Journal of International Law, and is an honors graduate of Georgetown University's School of Foreign Service.

All Public Policy and Professionalism Archived Webinars Available Without Charge to Members

ACADEMY MEMBERS CAN NOW, without charge, access past public policy as well as professionalism webinars to earn (non-organized activity) continuing education credits. The newly formatted webinars page, available via the second tab on the lower right side of the Academy homepage, includes links to archived slides, audio, and original event pages—all free to members. The page also lists upcoming public policy and professionalism webinars.

AMERICAN ACADEMY of ACTUARIES
CELEBRATING 50 YEARS
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REGISTER NOW FOR THE
AMERICAN ACADEMY OF ACTUARIES 50TH ANNIVERSARY

ANNUAL MEETING

AND PUBLIC POLICY FORUM

November 12-13, 2015

Washington Marriott Wardman Park

2660 Woodley Road, NW, Washington, DC 20008

Stay current in your practice, earn continuing education credits, network with your peers, and honor esteemed colleagues receiving awards at the Academy's 50th anniversary celebration.

Speakers Added

Nov. 12, 11:30 a.m. -1:30 p.m.

Keynote Address: "How State Regulators Address Cybersecurity"

Following a luncheon and the Academy's Annual Meeting, Adam Hamm, insurance commissioner for the state of North Dakota and chairperson of NAIC's Cybersecurity Task Force, will discuss how state regulators are addressing cybersecurity.

Nov. 12, 3:15 – 5:15 p.m.

Plenary: Protecting the Solvency of U.S. Insurers

Richard Berner, director of the U.S. Department of the Treasury's Office of Financial Research (OFR), will make remarks, followed by panel discussions on "The Future of Risk Management Tools" and a "Capital Standards Overview."

Nov. 13, 11:30 a.m.-1:30 p.m.

Plenary: Climate Change

Panelists Mike Kreidler, insurance commissioner of Washington state, and Jainey Bavishi, associate director for climate preparedness, White House Council on Environmental Quality, will discuss risks posed by climate change. The session will conclude with a keynote address on "The Sustainability of Government Programs" by Gene Dodaro, comptroller general of the United States.

Earn CE Credit

By attending the entire Annual Meeting and Public Policy Forum, the agenda will enable attendees to earn up to:

- **11.1 organized activity continuing education credits, depending upon your area of practice,**
- **1.5 hours of business CE credits, and**
- **4.2 hours of professionalism CE credits.**

Honor Your Distinguished Colleagues

Join us as the Academy presents its highest awards to two distinguished Academy members:

- On Nov. 12, **Michael Boerner** will receive the Robert J. Myers Public Service Award in recognition of his extraordinary contribution to the public good through service with the Texas Department of Insurance and exceptional leadership at the NAIC.
- On Nov. 13, **Andrea Sweeny** will receive the Jarvis Farley Service Award in recognition of her longtime Academy volunteer service integral to numerous projects benefiting the U.S. actuarial profession.

Registration www.actuary.org/academy50 202-223-8196

Gala

Hosted in the spectacular Renaissance-style halls of the National Museum of Women in the Arts, the Academy's 50th Anniversary Gala Dinner will offer a feast in the company of your peers as the Academy commemorates public policy and professionalism milestones of significance to the U.S. actuarial profession—and the dedicated and visionary Academy members who made them possible. LIMITED SPACE IS AVAILABLE.

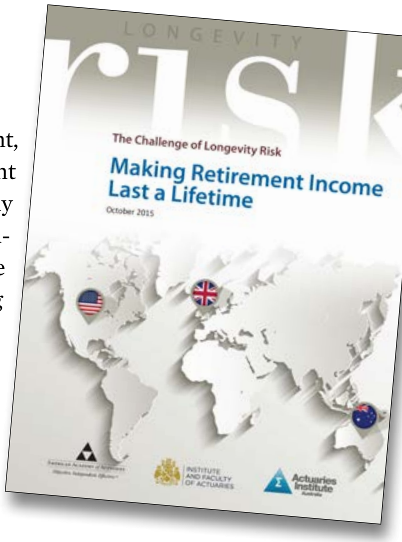
50TH ANNIVERSARY CELEBRATION | NATIONAL MUSEUM FOR WOMEN IN THE ARTS | THURSDAY, NOVEMBER 12TH, 6:30 PM

Capitol Steps

The Washington-based political satire troupe the Capitol Steps will provide the entertainment at the Gala Dinner.

The reception and Gala Dinner are included in the two-day registration fee. Tickets may be purchased separately for guests.

New Joint Paper Explores Longevity Risk



THE ACADEMY, in conjunction with the U.K.'s Institute and Faculty of Actuaries (IFoA), and the Actuaries Institute of Australia, released *The Challenge of Longevity Risk: Making Retirement Income Last a Lifetime*, a paper that explores one challenge to assuring financial security in retirement: longevity risk, which is the risk of outliving one's assets.

The paper examines longevity risk under the retirement systems in the three countries and calls attention to the need to inform individuals and educate policymakers about the decumulation phase of retirement, when people are spending down their retirement assets. The paper highlights that the shift away from defined benefit pensions to defined contribution plans in many countries has transferred the responsibility for managing longevity risk, along with investment and inflation risk, to the individual.

This paper is part of the Academy's ongoing initiative on aging and demonstrates the Academy's efforts to represent the U.S. actuarial profession globally.

Recently Released

THE OCTOBER ISSUE of *HealthCheck* includes coverage of the Academy's testimony on the implications of expanding the small group definition under the Affordable Care Act (ACA) to companies with up to 100 employees, and President Obama signing a measure into law that amends the ACA to make it optional for states to participate in that expansion; Senior Health Fellow Cori Uccello's participation in a panel discussion on drivers of health care premium changes; and a roundup of several other House and Senate health care bills.

In the Fall 2015 edition of PBA Perspectives, the Academy's quarterly update on regulatory, legislative, and Academy activities surrounding the implementation of the principle-based approach (PBA) for life insurance, read about an NAIC proposal on how to determine state adoption of PBA, related items from the NAIC's summer meeting, and an update of states adopting principle-based reserving.

IN THE NEWS

A widely published *Associated Press* story on the Kansas Public Employees Retirement System cited the Academy's issue brief, *The 80% Pension Funding Standard Myth*, in questioning the state's strategy to set an 80 percent funding goal. The story ran in multiple U.S. and international news outlets including *The Washington Times*, and *The New Zealand Herald*.

A *Kaiser Health News* story on legislation signed by President Obama to amend the ACA cited the Academy's issue brief on expanding the small group definition under the ACA. It was published by numerous media outlets including *Healthcare Finance News*, *The Lund Report*, *Northwest Georgia News*, and Cincinnati.com.

Media outlets across three continents reported on the release of *The Challenge of Longevity Risk: Making Retirement Income Last a Lifetime*, a joint project by the Academy, the U.K.'s IFoA, and the Actuaries Institute of Australia. The paper explores considerations of the decumulation phase of retirement, in which a retiree spends down assets accumulated prior to retirement. Stories in *BenefitsPro* and Canada's *Benefits and Pensions Monitor* report on the paper from a North American perspective.

The Academy is cited in *BenefitsPro* story that provides a critical analysis of the latest update to mortality tables produced by the Society of Actuaries (SOA). The story notes that the rate of improved mortality in the updated tables will have significant implications for plan sponsors, and questions the timeliness of the data used by the SOA. The piece was also published in *Treasury & Risk*.

The Florida Times-Union cited the September/October *Contingencies* cover story, "Our Nation's Neglected Infrastructure," as part of an editorial calling for greater U.S. infrastructure investment.

The Academy's analysis examining 2016 health insurance premiums was featured in a MainStreet story that quotes from the issue brief *Drivers of 2016 Health Insurance Premium Changes* about how changes in risk pool composition can affect premium rates. The story also ran in *The Oakland Press*, *West Hartford News*, and other media outlets.

Bloomberg BNA's subscriber-only story on recent congressional action to amend the ACA cited analysis from the Academy's issue brief, *Potential Implications of the Small Group Definition Expanding to Employers with 51-100 Employees*. The issue brief was also cited in *Health Affairs Blog*, *Hartford Business Journal*, *The Charlotte Observer* (N.C.), *The Republican-American*, *TheLedger.com*, and *MyStatesman.com*.

PropertyCasualty360 and *Automotive News* noted the Academy will honor Andrea Sweeny with the Jarvis Farley Service Award and Michael Boerner with the Robert J. Myers Public Service Award at the Academy's Annual Meeting and Public Policy Forum in Washington in November.

Bill Hallmark, chairperson of the Public Plans Subcommittee, provided an actuarial perspective for a *Military Times* story on options within the defense authorization bill passed by Congress for military personnel to take lump-sum payouts instead of traditional pensions. The story also ran in related news outlets for the Army, Navy, Air Force, and Marine Corps. *BenefitsPro* also reported on the paper.

The Health Practice Council's Feb. 24 letter to Health and Human Services Secretary Sylvia Mathews Burwell was cited on healthinsurance.org, which examined premium subsidies for participants in New Hampshire's health insurance marketplace.

PROFESSIONALISM COUNTS

ASB Reaches a Milestone: ASOP No. 50

The Actuarial Standards Board (ASB) recently adopted its 50th actuarial standard of practice (ASOP), *Determining Minimum Value and Actuarial Value Under the Affordable Care Act*. This milestone—50 standards adopted to provide actuaries with appropriate practices across all practice areas—provides the Academy and its membership another reason to celebrate amid our ongoing 50th anniversary festivities this year.

The Affordable Care Act (ACA) divides health plans into several categories—bronze, silver, gold, and platinum—based on the percentage of health care costs covered by a plan. This percentage, also known as actuarial value, helps consumers compare different plan designs and cost sharing provisions. The ACA requires certain employer-sponsored health plans to cover a minimum percentage of costs at each level, known as minimum value. This ASOP provides guidance to actuaries performing professional services with respect to calculating actuarial values and testing minimum value requirements in accordance with the ACA and related regulations, specifically for purposes of (1) categorizing individual and small group health insurance plans into metal levels; (2) testing whether employer-sponsored health insurance plans meet the federal minimum value requirements; or (3) making any required certifications.

The adoption of this standard is a testament to the ASB's responsive nature amid changing regulatory and legislative environments.

ASOPs provide "appropriate" levels of guidance, indicating the appropriate procedures, techniques, and approaches for nearly every task an actuary may be asked to perform, as well as helping to protect the public by providing assurance that actuaries are professionally accountable.

But what is considered "appropriate" practice may change over time. The adoption of this standard is a testament to the ASB's responsive nature amid changing regulatory and legislative environments. "The adoption of ASOP No. 50 is a sign of our profession's critical role in the increasingly complex insurance industry," said ASB Chairperson Tricia Matson. "More sophisticated products, processes, and regulations have led to the need for more standards to guide actuaries in what constitutes appropriate actuarial practice."

Furthermore, Matson points out that the ASB has taken steps to make it easy for actuaries to access and use the tools they need to complete their work. "We recognize the challenge of staying on top of all these standards, and launched earlier this year and new mobile-friendly website to enable actuaries to access the standards from almost anywhere."

The standard, which will be effective for any actuarial work product covered by its scope issued on or after Jan. 31, 2016, can be viewed here.

So let's celebrate the 50th actuarial standard of practice, but even more important, let's celebrate the fact that our profession not only has appropriate standards but also has the ability to ensure they remain appropriate, even under changing circumstances.

PROFESSIONALISM NEWS

Academy Hosts 'Unknown Unknowns: Challenges to Professionalism' Webinar

THE ACADEMY'S POPULAR PROFESSIONALISM WEBINAR SERIES continued with more than 700 registered sites participating in an Oct. 30 webinar on facing unknown unknowns in actuarial work. Both the pension and health areas have faced such circumstances in recent years with the implementation of the Affordable Care Act (ACA) and the Multiemployer Pension Reform Act of 2014 (MPRA).

The property/casualty area faced a different kind of unknown a decade or so ago, when reserves at many companies experienced

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UNKNOWNS, continued from page 5

"adverse deviation"—that is, the reserves increased significantly over the prior year, eventually pushing some companies into insolvency.

Eli Greenblum, vice president for pension issues, and Academy President-elect Tom Wildsmith spoke on the difficulties facing actuaries working under the new and frequently changing rules surrounding the MPRA and ACA, respectively. When rules emerge in ways that cannot be anticipated, even actuaries with decades of experience must ask themselves whether they are really qualified to provide actuarial services under the new requirements.

The panelists described how actuaries can approach these unknown unknowns from a professionalism framework. "Asking yourself a few questions can help you decide whether you are qualified to practice in the new environment," Wildsmith said. "Ask yourself whether you've read and understood all the new laws, rules, and regulations; whether you are talking to others about how to practice under the new rules; and whether the techniques and principles you've used in the past are still relevant."

"When answering these questions, you may find it helpful to consult the Code of Professional Conduct, colleagues, and legal counsel—your own and your client's," Greenblum added.

Academy President Mary D. Miller revisited the challenges to the casualty practice that received significant negative publicity some years ago, with commenters then questioning whether actuarial work of opinion signers reporting on reserves was "naïveté or knavery." Between 2001 and 2002, nearly a quarter of the companies reported an increase of more than 10 percent on the prior year's reserves, for a total of $23 billion in adverse development. Initially, the reasons for this adverse development were unknown, but investigation revealed unexpectedly large asbestos and environmental claims, as well as mismanagement in some cases, to be underlying causes.

Ultimately, new requirements were instituted. Since 2004, actuaries have been expected to comment on the Risk of Material Adverse Deviation in statements of opinion on property/casualty loss and loss adjustment expense reserves.

Miller recommended discussing and disclosing more, rather than less, in opinions. "Admit what you know and what you don't know, and if unknown amounts may be material, consider a qualified opinion," she said, and suggested discussing the issue with the regulatory actuary, who is likely already aware of the uncertainties.

ASB Approves Draft of ASOP No. 21 Revision

THE ACTUARIAL STANDARDS BOARD (ASB) approved an exposure draft of a revision of ASOP No. 21, *Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations*.

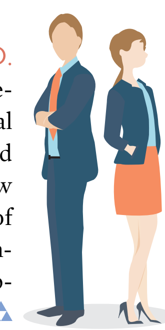
As financial audits, reviews, and examinations have evolved significantly in the past 10 years, the ASB decided that another revision of ASOP No. 21 was necessary.

The current version of ASOP No. 21 does not address the actuary's responsibility with respect to process and controls in the Sarbanes-Oxley environment, and was adopted before the NAIC promulgated the Model Audit Rule. Furthermore, audits and examinations are increasingly conducted on a risk-focused basis; this practice contributed to the need for a revision of ASOP No. 21.

The comment deadline is Dec. 31 for the exposure draft, which can be viewed here.

Professionalism Outreach

ACADEMY PRESIDENT MARY D. MILLER delivered a professionalism presentation to the Columbus (Ohio) Actuarial Club on Sept. 28. More than 70 actuaries attended the presentation, at which Miller gave an overview of actuarial professionalism, including the Code of Professional Conduct, the Actuarial Board for Counseling and Discipline, and the Academy's development of a qualification attestation form.



PROFESSIONALISM BRIEFS

- **Gregory Kissel** is now chairperson of the Committee on Actuarial Public Service.

COQ Appoints Three New Members

THREE NEW MEMBERS have been appointed to the Committee on Qualifications (COQ): Mary Bahna-Nolan, Carl Shalit, and Andrea Sweeny. They join continuing members Mark Bracher, Tom Campbell, John Gleba, Ken Quintilian, Frank Stone, Joeff Williams, Hal Tepfer (vice chairperson), and Keith Passwater (chairperson).

Sweeny, a highly regarded property and casualty actuary, last served as Secretary-Treasurer on the Academy board and has been in many volunteer roles at the Academy. In addition, she will receive the 2015 Jarvis Farley Service Award during the Academy's Annual Meeting and Public Policy Forum in Washington in November.

Shalit consults to third-party pension plan administrators. He has contributed to many Academy and other associations' volunteer activities and presently serves on the Joint Board for the Enrollment of Actuaries (JBEA) Advisory Committee on Actuarial Examinations.

Bahna-Nolan, who has served as the Academy's vice president for life issues, recently joined SCOR Global Life as executive vice president, head of life R&D. In addition to being a frequent speaker at industry meetings and author of several papers and articles, she is active in many actuarial industry activities, particularly at the NAIC.

The COQ is the long-standing Academy Committee that recommends to the Board of Directors minimum qualification standards, including continuing education requirements for members, and it responds to questions relating to compliance with the U.S. Qualification Standards.

Letters From Early Academy Leaders Still Resonate

IN HONOR OF OUR 50TH ANNIVERSARY, throughout this year we are reprinting communications from early Academy leaders. This month's selection is excerpted from a letter sent by the Joint Committee on Organization of the Actuarial Profession to all actuaries in the United States in early 1964. In addition to drafts of proposed founding documents, the letter lays out the pressing need for a central body to serve as the home of U.S. actuarial professionalism—a charge the Academy maintains to this day.

To The Actuaries in United States ***February 14, 1964***

Representatives of the four American actuarial bodies:

Casualty Actuarial Society
Conference of Actuaries in Public Practice
Fraternal Actuarial Association
Society of Actuaries

have been making plans to organize a new actuarial body, the American Academy of Actuaries, with the expectation that membership in the Academy may be recognized as a satisfactory standard of accreditation for an actuary. Copies of the proposals regarding Charter, Bylaws, Committees, and Election Procedure are attached.

The proposals for membership in the Academy are the result of great study and discussion. It was felt that the ultimate goal should be high enough to satisfy the federal and various state governments that the public would be adequately protected. This should include an experience requirement as well as the demonstration of knowledge by examination. On the other hand, it was agreed that the majority of those now engaged in actuarial work who have demonstrated their competence, however attained, should be included in the membership of the Academy.

It is imperative that something be done about accreditation immediately. We have no one standard which can be pointed to as the standard or the identification mark of an accredited actuary. We have been complacent and have assumed that anyone needing actuarial knowledge or certification would come for it to those who in our opinion have those qualifications.

The successful organization of the Academy of Actuaries requires the full cooperation of all actuaries. There is some element of compromise, both in the initial requirements for membership and in the agreement on the part of all concerned that after a certain period of time both experience and the completion of examinations will be required for new members.

The Joint Committee urges you to read the enclosed material carefully and to express your views at an actuarial club meeting. If you are unable to attend such a meeting, please write and express your views to any of the undersigned committee members. It may not be possible to reply to all of the letters, but every suggestion will be carefully reviewed before another draft of the proposal is prepared.

Joint Committee on Organization of the Actuarial Profession
L. H. Longley-Cook
Frank Gadient
H. Raymond Strong
Henry F. Rood, Chairman

Price Optimization Task Force Comments on White Paper

THE PRICE OPTIMIZATION TASK FORCE submitted a comment letter to the NAIC's Casualty Actuarial and Statistical (C) Task Force (CASTF) on its Price Optimization White Paper that was exposed on Oct. 13.

The letter outlines a number of recommended changes to the draft white paper and, in an attached markup of the draft, provides suggested wording changes to its text.

As the task force noted in its July 2 comment letter, some insurers believe price optimization is allowed; the counterpoint to that statement is that others disagree. As the draft white paper is currently written, the counterpoint appears to be that there is no single actuarial standard of practice (ASOP) devoted to ratemaking.

However, the letter notes that there are numerous ASOPs related to ratemaking and, in particular, "there is an ASOP for risk classification, which is at the heart of the current debate."

The letter states the white paper would be enhanced by a clear and consistent distinction between "rate" and "price," notwithstanding that they may be the same in some instances. This distinction has been discussed at length on recent CASTF conference calls.

CASUALTY BRIEFS

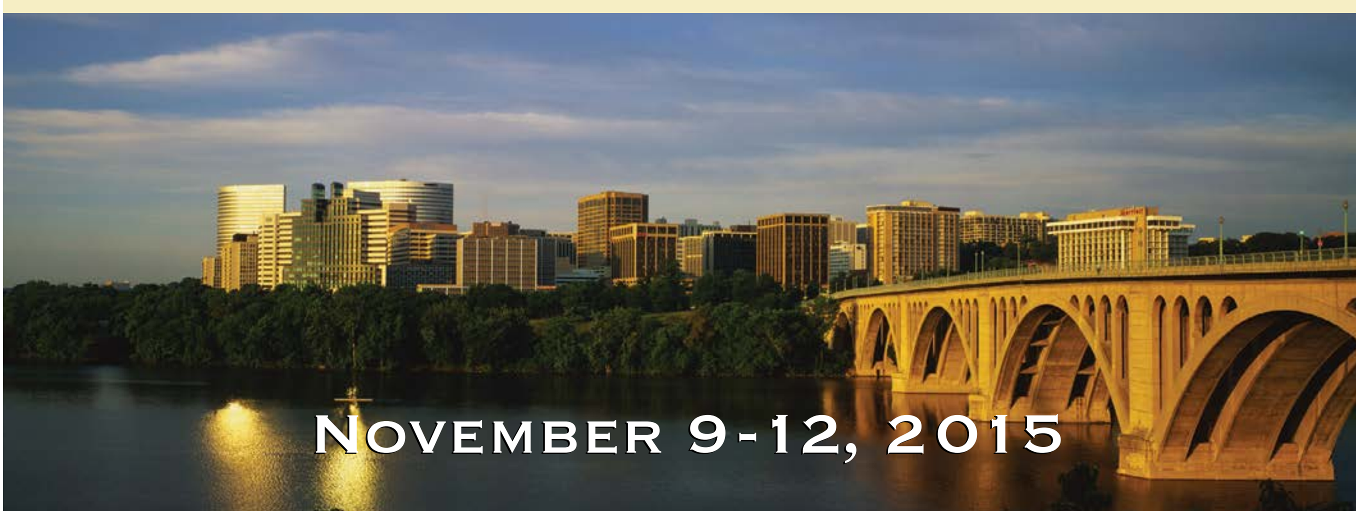
➥ **Kevin Christy** and **Lise Hasegawa** have joined COPLFR.

P/C Opinion Seminar

Dec. 1-2, Philadelphia
Wyndham Historic District

Actuaries who prepare or sign NAIC annual statements of actuarial opinions on property/casualty loss reserves, or assist in preparing them, should plan to attend this seminar.

LIFE & HEALTH QUALIFICATIONS SEMINAR



KEY BRIDGE MARRIOTT, ARLINGTON, VA

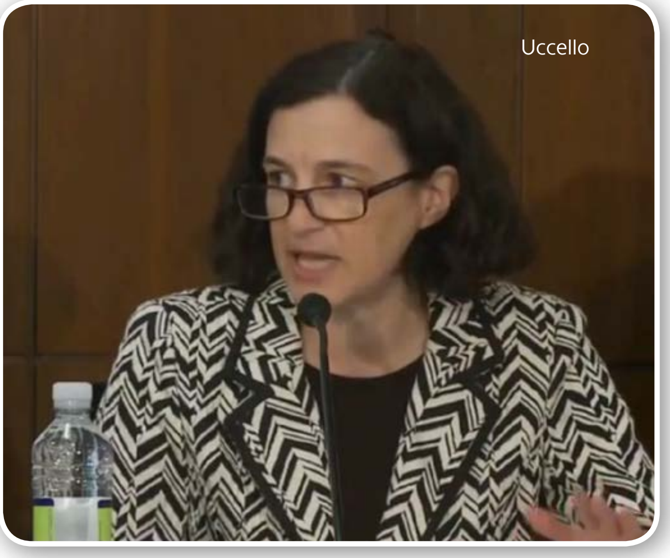
Note: The seminar has reached capacity but spaces may open up; please visit the seminar web page for information about the waiting list.

Senior Health Fellow Cori Uccello Speaks at Health Reform Briefing

AT AN OCT. 5 ALLIANCE FOR HEALTH REFORM BRIEFING, Senior Health Fellow Cori Uccello outlined the major drivers that are underlying 2016 health insurance premium changes in the individual market. The video can be viewed in the Academy's online newsroom.

Uccello highlighted that the underlying growth in health care spending and the reduction in reinsurance program funds both are contributing to higher premiums in 2016. While the overall growth in medical spending has been relatively slow recently compared with historical trends, prescription drug spending has been increasing fairly rapidly due to the introduction of specialty drugs, she noted.

Another driver of premium changes is how insurer expectations regarding their 2016 risk pool composition differ from those for 2015, now that they have more information on their 2014 plan year experience. Uccello also cautioned that premium changes for any particular consumer will vary from a state or insurer's average change.



Uccello

Active Benefits Subcommittee Comments to IRS on High-Cost Employer-Provided Health Plans

THE ACTIVE BENEFITS SUBCOMMITTEE sent a letter to the IRS regarding Notice 2015-52 on the excise tax for high-cost employer-sponsored health coverage under the Affordable Care Act.

The comments focus on three sections of the notice—employer aggregation, cost of applicable coverage, and the age and gender adjustment to the dollar limit. They also include a number of potential implications of the application of the excise tax on the small group market.

On the issue of employer aggregation, the letter notes that Section 4980I of the Internal Revenue Code provides generally that all employers within a controlled group are treated as a single employer for purposes of the excise tax. While aggregating controlled group members up to the highest level could eliminate volatility in the age and gender distribution among an employer's separate subgroups, according to the letter, the employers may provide different benefits to different employee populations within a controlled group.

As such, treating the underlying groups separately could be a reasonable approach and easier to administer. Allowing disaggregation could:

- better align with how companies administer the health plans for different employee populations within a controlled group;
- better identify the entity responsible for calculating and reporting the excess benefit; and
- provide clearer identification of the employer liable for any penalty. Doing so would better align the excise tax with the employer-shared responsibility requirements—the same employer charged with providing affordable, minimum value coverage also would be responsible for providing the coverage that is measured for the excise tax.

Regarding the cost of applicable coverage, the letter addressed several components—aligning the taxable period with the health plan year since many employers do not use a calendar year for their health plan year; aligning the determination period also with the plan year; excluding from the cost of coverage any income tax gross-up if the actual excise tax is also excluded; and evaluating potential approaches to applying the tax gross-ups formula.

One of the key actuarial issues addressed in the letter relates to age and gender adjustments. According to the letter, "It is important that the adjustment to the dollar limit reflect no simply the average age of the workforce, but the distribution of the work force across age and gender." The letter addresses various approaches to determining the age and gender distribution as well as options relative to the development of age and gender adjustments.

Finally, the letter notes that "As currently structured, the application of the excise tax can have significant unintended consequences for small groups." Specifically, employers that do not offer generous benefit plans and would not be subject to the excise tax if it were not for the ACA modified community rating requirements, could see higher premium rates. The question raised by the subcommittee centers around how to reconcile the implementation of the excise tax with the concept of a single risk pool to which fully insured, ACA-compliant small group plans are subject. In addition, the letter explores the potential of the imposition of the tax on small group employers' decisions to self-insure or even drop coverage.

Life Work Groups Comment to NAIC on a Variety of Issues

SEVERAL LIFE PRACTICE COUNCIL WORK GROUPS submitted comments this month to the NAIC and other entities on matters related to life insurance.

The **Life Illustrations Work Group** submitted comments to the NAIC Life Insurance and Annuities (A) Committee regarding possible life insurance policy illustration issues that could be reviewed by the proposed Illustration Review (A) Working Group.

The comments emphasized consistency in Life Insurance Illustrations Model Regulation #582, ASOP No. 24, and Actuarial Guideline XLIX (AG 49), which focus on consumer comprehension and protection, as well as illustration actuary and responsible officer duties. When appropriate, consistency of treatment and presentation of product features across product types would focus on enhancing consumer understanding, the comment letter states, and recommends review of these issues.

The **Principle-Based Reserves Strategy Subgroup** submitted comments to the NAIC Reinsurance Task Force on the exposure draft, *Non-Universal Life and Universal Life With Secondary Guarantees Credit for Reinsurance Model Regulation*.

The subgroup's letter states that it sees one of two options—either a dollar for dollar reduction in credit or a proportional reduction in credit— as supportable choices for the consequence of a shortfall in security under the new regulation.

Both of those options provide a consequence for the reserve credit that is sized in relation to the amount of the shortfall and the risk that amount of shortfall may create, and both options may afford the company and its regulator useful flexibility in periods of financial market stress, the letter states.

The **VM-22 Drafting Subgroup** of the Annuity Reserve Work Group (ARWG) submitted comments to the NAIC Life Actuarial Task Force's (LATF) VM-22 subgroup on draft sections of VM-22 that cover all non-variable annuities and deposit funds.

The comments were in line with "making progress toward fulfilling the charge made by LATF at its Spring 2012 meeting in New Orleans to the ARWG to develop a draft of VM-22 covering all non-variable annuities and deposit funds," the letter states.

The **AG 43/C-3 Phase II Work Group** submitted comments on the "Variable Annuities Framework for Change" to the NAIC Variable Annuities Issues (E) Working Group (VAIWG).

The Framework, as exposed, has the tone of a completed effort, with the Quantitative Impact Study (QIS) serving only to validate the Framework. While the work group supports enhancements to the reserve and capital requirements for variable annuities, it believes an industry impact study (which the work group strongly supports) of the exposed framework is premature at this time. The work group believes that more work is needed to determine whether the exposed framework will achieve the objectives stated by the VAIWG.

The comments state that a Jan. 1, 2017, effective date is too aggressive for the Framework. The work group states that such an early effective date "will make it very difficult to test any proposed changes or conduct a suitable quantitative impact study. While a target date is useful, we believe Jan. 1, 2018, is more realistic."

The **Nonforfeiture Modernization Work Group** (NFMWG) submitted additional comments related to cancellation benefits on the *Draft Contingent Deferred Annuity (CDA) Cancellation of Benefits Document* to the NAIC CDA (A) Working Group.

The comments note that nonforfeiture benefits are primarily a consumer protection issue, as noted in the August 2011 Report of the NFMWG, even though there may be some public policy considerations associated with the provision of these benefits. The concept of nonforfeiture benefits implies that cancellation of the CDA by the insured should result in a continuation of benefits in some in-kind form when there is value.

LIFE BRIEFS

- **Kemi Akinyemi** has joined the Life Capital Adequacy Committee.
- **Erik Anderson** has joined the Life Illustrations Work Group.
- **Alpesh Sanghani** has joined the Life Reserves Work Group.
- **Chris Conrad** is now chairperson of the Reinsurance Committee.
- **Wayne Stuenkel** is now chairperson of the Life Capital Adequacy Committee.

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

- **Arnold Dicke** is now chairperson of the Reinsurance Committee.
- **Benjamin Slutsker** has joined the Solvency Committee.
- **Timothy Aman**, **Bill Brummond**, **Maria Milazzo**, and **Ernest Wilson** have joined the Reinsurance Committee.
- **Bruce Bohlman** and **Bill Odell** have joined the Financial Reporting Committee.
- **Bernard Robinowitz** has joined the ERM/ORSA Committee.
- **Joseph Dunn**, **David Rogers**, and **Clint Thompson** have joined the Financial Regulatory Task Force.

Pension Cost Webinar Planned for Nov. 10

THE ACADEMY'S NOV. 10 WEBINAR, "Alternatives for Pension Cost Recognition—Issues and Implications," will provide a discussion of an area of emerging practice to inform actuaries and other interested parties about alternative expense methodologies.

The webinar will review different applications of yield curve rates in determining the elements of pension accounting cost, along with the theoretical rationales and implications of using them, and will be based on the issue brief *Alternatives for Pension Cost Recognition— Issues and Implications*, released by the Academy's Pension Committee and Pension Accounting Committee in August.

The 90-minute webinar will begin at noon EST and registration is $50 for members ($150 for nonmembers). The panelists will be Pension Committee members Bruce Cadenhead, Tim Geddes, and Jerry Mingione.

The Academy believes in good faith that your attendance at the live webinar constitutes an organized activity as defined under the current Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States, depending upon your area of practice.

HEALTH BRIEFS

- **Bill Obert** has joined the Group Long-Term Disability Practice Note Work Group.
- **Edward Cymerys** and **Scott Katterman** have joined the Health Solvency Subcommittee.
- **Matt Winegar** has joined the Long-Term Care/Disability Insurance Committee and the LTC Reform Subcommittee.
- **Rod Turner** has joined the Long-Term Care/Disability Insurance Committee and the Medicare Supplement Work Group.
- **Dustin Joseph Grzeskowiak**, **Jinn-Feng Lin**, **Leslie Lucas**, **Geoff Sandler**, and **Andrea Sheldon** have joined the Medicare Subcommittee.
- **Julie Andrews** has joined the Premium Review Work Group and the AV/MV Work Group.
- **Jena Breece** has joined the Medicare Supplement Work Group.
- **Matt Peach** and **Carolyn Ranck** have joined the AV/MV Work Group.
- **Michael Thompson** has joined the Medicare Subcommittee.
- **Julia Lerche** and **Ernest Jaramillo** have joined the Medicare/Medicaid Reform Work Group.
- **Susan McQuillian** has joined the Prescription Drug Work Group.
- **Piotr Krekora** has joined the Retiree Benefits Subcommittee.
- **Scott Katterman** has joined the SVL Interest Rate Modernization Work Group.
- **Casey Fyffe** and **Nadya Toskova** have joined the SVL Interest Rate Modernization Work Group.

Noel Abkemeier, co-chairperson of the Lifetime Income Risk Joint Task Force, speaks at the Academy's Oct. 23 'Aging Securely' Forum.

retirement plans that involve a systematic withdrawal of funds.

He recommended starting early, saving as much as one can, and investing properly with low fees, but said there are many individuals who do not have access to plans or are not saving enough. Some challenges he cited included workers retiring or claiming Social Security too early. In the case of Social Security, benefits could increase by as much as 76 percent if deferred until age 70, he noted.

There is also often insufficient education on lifetime income, he said. Retirees do not always understand the differences between guaranteed and planned income, and many cannot appreciate the value of combining guaranteed products with investment strategies that provide planned, but uncertain, outcomes.

These and related points tied into the Lifetime Income Risk Joint Task Force's new issue briefs in its *Risky Business* series. One covers financial literacy and education for prospective retirees, and refocused plan design and federal retirement policies; another provides actuarial insights regarding lifetime income planning; and a third examines risk sharing by retirees. The task force also released an issue brief that explains general retirement planning considerations and another designed to provide a high-level perspective on key aspects related to lifetime income.

"Decumulation is far more complicated than accumulation," Shemtob said. "Accumulation is about saving and investing—with decumulation, we have to look at the specific circumstances of the individual: what kind of life expectancy, how much money has been saved" and other issues, such as whether a person has LTC insurance.

"It's not really a one-size-fits-all situation," he said. "At the end of the day what we're really going to have to do is increase access to education."

Noel Abekemeier, co-chairperson of the same task force, said that a higher Social Security retirement age makes a big difference, noting the Academy's previous recommendation of raising the full retirement age to beyond the currently scheduled 67. "That would give people more psychological elbow room to think about later retirement," he said.

Long-Term Care

In conjunction with the forum, the LTC Reform Subcommittee released issue briefs on LTC insurance portability, product design flexibility, and pricing flexibility as part of its new series. The Medicare Subcommittee also released an issue brief examining the potential for Medicare Advantage plans to improve quality of care at lower prices as part of its *Medicare@50* series.

Chris Giese, a member of the Aging Task Force, noted that LTC options can be expensive—$80,000 per year for nursing home care, or $40,000 for in-home LTC. While there are a lot of options for LTC insurance, that too can be expensive, he said.

Eric Stallard, chairperson of the LTC Reform Subcommittee, said that with 4 million baby boomers—those born between 1946 and 1964—retiring at a rate of 10,000 a day, that can mean up to per-capita costs of about $70,000, or a total of $700 million per day, almost $5 billion per week, and about $250 billion per year.

About half of those costs are projected to be out-of-pocket, about 35 percent by Medicaid, 10 percent by Medicare, and only about 5 percent covered by LTC insurance. He said there are opportunities for policy initiatives from Congress that "may improve the current situation, and there are many, many things that could be proposed."

For Medicaid, LTC financing policy options include strengthening financial eligibility rules, encouraging home health care options, and encouraging partnership policies.

Options also include expansion of programs for all-inclusive care for the elderly, with Medicare/Medicaid programs for nursing-home certified persons aged 55 and older. A Medicare expansion, including creating a new part to the program, could cover comprehensive LTC benefits, including home care.

Bruce Stahl, vice chairperson of the subcommittee, noted that future Academy LTC papers will include understanding LTC insurance rate increases, partnership policies, and Medicaid and eligibility.

Medicare, Social Security Sustainability

A third panel looked at the sustainability of the public programs Medicare and Social Security, and recapped some of the Academy's work on keeping them sustainable for the long term.

Tim Leier, chairperson of the Social Security Committee, noted that without that 80-year-old federal program, 52.6 percent of the population aged 65 and older would be living in poverty; Social Security brings that portion down to just 14.6 percent.

Senior Health Fellow Cori Uccello gave an overview of Medicare's long-term sustainability, and noted several key challenges, including that the number of workers is shrinking, while the number of beneficiaries and costs are growing.

The Academy is dedicated to providing policymakers with objective, unbiased analysis of the complex issues facing our nation. As the United States grapples with new realities brought about by an aging populace, we stand ready to lend our actuarial expertise to these efforts.

Solvency Committee Submits Testimony on Domestic Insurance Regulations

THE SOLVENCY COMMITTEE submitted written testimony for the U.S. House Financial Services Subcommittee on Housing and Insurance's hearing on "The Impact of Domestic Regulatory Standards on the U.S. Insurance Market."

Insurance companies operate in different markets under different accounting constructs, and their risks differ from those of other financial institutions, states the testimony, submitted by Solvency Committee Chairperson Elizabeth Brill. The business models for insurance companies and other financial institutions have important differences relative to, among other things, the needs of consumers, the nature of risks transferred, and the timing and certainty of cash flows.

Regulation focused on risks that are not necessarily significant to insurers could drive changes to their product offerings, impact policyholders by impeding competition and creating affordability and accessibility problems, and lead to actions that increase the economic risks to insurers and their policyholders, the testimony states.

The Solvency Committee believes that the following basic principles should be taken into account during the development process for international insurance regulations and capital standards:

- A group solvency regime should be clear regarding its regulatory purpose and goals.
- Any metrics, information, or other output of a group solvency standard should be useful to all relevant parties, including regulators, management, shareholders, and rating agencies.
- A group solvency regime should promote responsible risk management in the regulated group and encourage risk-based regulation.
- Methods should recognize and take into consideration the local jurisdictional environments under which members of an insurer group operate, including the local regulatory regime, product market, and economic, legal, political, and tax conditions.
- A group solvency standard should be compatible across accounting regimes, given the political uncertainties in achieving uniform standards.
- A group solvency standard should minimize pro-cyclical volatility so as to avoid unintended consequences on insurance groups, insurance markets, and the broader financial markets.
- A group solvency standard should present a realistic view of an insurance group's financial position and exposures to risk over an agreed-upon time frame.
- All assumptions used in any capital or solvency model should be internally consistent.
- It is more important to focus on the total asset requirement than the level of required reserves or capital on a separate basis. The focus should be on holding adequate total assets to meet obligations as they come due. Whether a jurisdictional standard requires the allocation of these assets to liabilities versus capital/surplus should be irrelevant to the overall solvency regime.
- It must be demonstrated that the capital held is accessible, including in times of financial or economic stress, to the entity facing the risk for which the capital is required.

ANNUAL MEETING, continued from page 1

skills workshop, a plenary session on professional ethics, and a festive gala dinner on Nov. 12, at which the well-known and highly regarded Washington-based political satire troupe the Capitol Steps will perform. (A limited number of tickets remain for the gala dinner; book now to reserve your seat.)

The meeting will open with a plenary session moderated by Academy President-elect Tom Wildsmith that will look at how journalists from major media outlets that cover "actuarial beats" such as Social Security, Medicare/Medicaid, public pension plans, and the Affordable Care Act are framing those high-profile, hot-button issues heading into the presidential election year.

The professionalism plenary session, which is being conducted for the Academy by ProEthics, will engage the audience directly with challenging professional ethics questions, hypotheticals, and dilemmas posed by a host.

Be sure to check the Academy's website for the latest additions and full meeting agenda and for information on the CE credits we estimate are available to you.