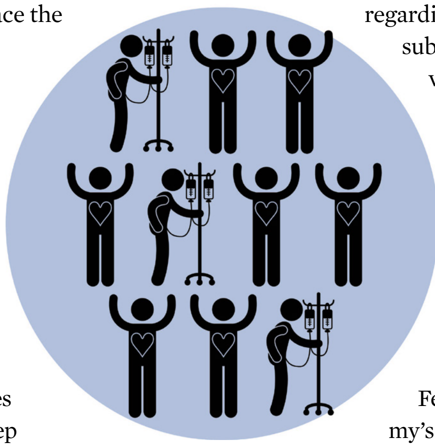
Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy Informs Nation's Health Care Debate

Work Includes Issue Brief, FAQs on CSRs and Risk Pooling

THE ACADEMY'S WORK in informing the important and ongoing national health care debate continued in July, with Academy papers and publications highlighting timely, diverse issues surrounding both the current Affordable Care Act (ACA) markets and efforts to repeal and/or replace the ACA, as well as Medicare.

The Health Practice Council sent a letter July 25 to U.S. Senate leadership on the potential adverse consequences of legislation to eliminate the ACA's individual mandate, which would lead to lower enrollment, a deterioration of the risk pool, and higher premiums. CNN Money quoted Shari Westerfield, the Academy's vice president, health, who wrote that "a balanced risk pool requires enrollment of healthy individuals to keep premiums affordable and stable."



The Individual and Small Group Markets Committee published an issue brief July 11, *Drivers of 2018 Health Insurance Premium Changes*, which provided an overview of the general factors underlying premium rate setting and highlighting the major components driving ACA premium changes in 2018.

Barb Klever, vice chairperson of that committee, presented July 14 at the National Conference of Insurance Legislators summer meeting in Chicago on the issue brief's key points, which included trends in health care costs; legislative and regulatory uncertainty regarding cost-sharing reduction (CSR) subsidies and enforcement of the individual mandate; whether risk-sharing programs for high-cost enrollees are provided; changes in the risk pool composition and insurer assumptions from 2017; and resumption of the health insurer fee.

The Academy's work drew widespread media coverage, including a July 5 *New York Times* story that quoted Senior Health Fellow Cori Uccello and the Academy's June 30 letter to Senate leaders in a story on an amendment proposed by Sen. Ted Cruz (R-Texas) to a Senate health bill that would allow insurers to offer less-comprehensive coverage than mandated under the ACA, as long as they offer access to at least one ACA-compliant plan. (See more media coverage of the Academy's work on health insurance in "In the News," p. 6.)

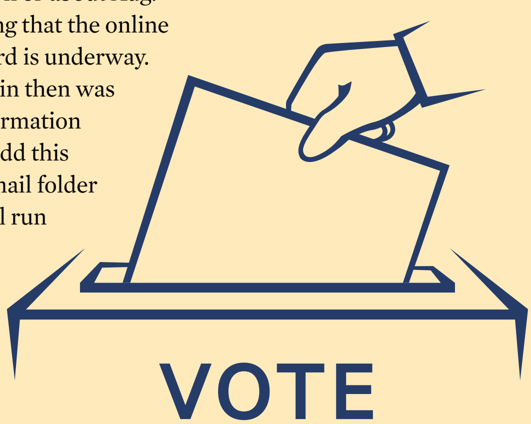
SEE **HEALTH CARE**, PAGE 4

Academy Election Set for August

ACADEMY MEMBERS should look for an email on or about Aug. 4 from Intelliscan, our election vendor, announcing that the online election of regular directors for the Academy Board is underway.

A preliminary notification that this election would begin then was sent to members on July 21—these emails with voting information will come from academy2017@intelliscaninc.net; please add this address to your safe senders list and/or check your junk-mail folder to make sure you have received it. The election period will run through Aug. 25.

We encourage members to take part in electing the newest leaders of the Academy who will help us fulfill our mission to serve the public and the U.S. actuarial profession. For more information, visit the Academy Board Election Center. ▲



AUGUST

23 Capitol Forum Webinar: An Update on the IAIS Insurance Capital Standard

25 Webinar: Post-NAIC Update (Life)

SEPTEMBER

6 Webinar: Post-NAIC Update (P/C)

10–12 Casualty Loss Reserve Seminar, Philadelphia

11–13 PBR Boot Camp, Las Vegas

NOVEMBER

12–16 Life and Health Qualifications Seminar, Arlington, Va.

14–15 Annual Meeting and Public Policy Forum, Washington, D.C.

DECEMBER

7–8 P/C Loss Reserve Opinions Seminar, Chicago

For a list of all previous and upcoming Academy events, please visit the Academy's online Events Calendar.

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*

Call for Volunteers

THE FINANCIAL REPORTING Committee is currently looking for specific volunteers to work on a variety of upcoming projects particularly related to the International Accounting Standards Board's recent release of IFRS 17—*Insurance Contracts*. The committee will be creating a cross-practice work group that will be charged with planning and executing a variety of initiatives, including webinars and possible work products related to the IFRS 17 release. We encourage actuaries from any practice area to volunteer; however, we are particularly looking for actuaries with relevant experience in the health practice area. If interested, please contact Nikhail Nigam, policy analyst for risk management and financial reporting, at nigam@actuary.org.

Early Registration Rates Available for Annual Meeting and Public Policy Forum

EARLY REGISTRATION RATES are available through Sept. 20 for the Academy's 2017 Annual Meeting and Public Policy Forum, to be held Nov. 14–15 in Washington, D.C. Breakout session information is available online. Bob Woodward of the Washington Post and Watergate fame will be a keynote speaker on Nov. 14, and political commentators Mark Shields and Alex Castellanos will be featured in a Nov. 15 interactive plenary session. Continuing education credit is available in many sessions. Register today.

Volunteer Survey Draws Large Response

ALMOST 700 MEMBERS participated in the Academy's annual volunteer survey this month, which members use to indicate interest in volunteering for the Academy. During the fall, volunteer leadership will review survey responses, and at that time survey participants whose skills and interests meet a committee's needs will be contacted about joining volunteer groups. Volunteers are essential to the Academy's work—many thanks to all who completed the survey.

NAIC Memorandum Cites P/C Findings

THE ACADEMY AND TWO OTHER actuarial organizations received a memorandum from the NAIC recounting the findings of its study of actuarial credentials and qualifications for property/casualty actuaries. The Academy welcomes the opportunity to continue to support and work with the NAIC to try to address its needs and concerns, as we have throughout our long history of establishing Qualification Standards for Public Statements of Actuarial Opinion. The NAIC will give a presentation on the study at its Casualty Actuarial and Statistical (C) Task Force during NAIC's Summer 2017 National Meeting, Aug. 6–9 in Philadelphia.

NAIC National Association of Insurance Commissioners

Academy NEWS

Academy Attends IABA Conference

THE ACADEMY OFFERED ITS congratulations to the International Association of Black Actuaries at the IABA's 25th anniversary celebration, held July 27–29 at the Capital Hilton in Washington, D.C. The Academy was a "Premium" sponsor of this event and staffed an exhibit showing the work of the Academy and its relevance to those attending. Academy President Bob Beuerlein attended, as did Jeff Johnson, vice president, life, and a founding IABA member; Executive Director Mary Downs; and Assistant Director of Membership Kasha Shelton. David Driscoll, a member of the Actuarial Board for Counseling and Discipline, presented a professionalism session for attendees at which they could obtain professionalism continuing education credit.

Johnson (left) and Shelton

Recently Released

IN THE JULY/AUGUST ISSUE OF *Contingencies*, the cover story "A Rigged Game?" takes a probing—and timely—look at human nature and the U.S. health care system. Other features include an analysis of technological unemployment and universal basic income, an exploration of the paradigm shift in the way insurance companies are crafting their offerings to consumers, and an examination of why analytic competition in a world of Big Data is a problem and what we can do about it. And in Part 3 of the "Professionalism in Action" series, Academy President Bob Beuerlein explores professionalism and new and emerging practice areas.

The summer issue of *StateScan Quarterly* features state legislative and regulatory activity relating to transportation network companies, captives, public pension plans, and marketplace changes in health care coverage. StateScan, the legislative/regulatory portal for Academy members, provides state legislative and regulatory reports on key topics in all actuarial practice areas.

The latest *PBA Perspectives* includes items on the PBR Review (EX) Working Group's pilot project; the Life Practice Council's spring PBR Boot Camp in Orlando, Fla.; and the PBR Model Governance Practice Note Work Group's new practice note.

The July *HealthCheck* covers the Individual and Small Group Markets Committee's issue brief on factors driving 2018 premium changes; Academy health committees' comments to U.S. Senate leadership on health care legislation under consideration; and legislative, judicial, and regulatory updates.

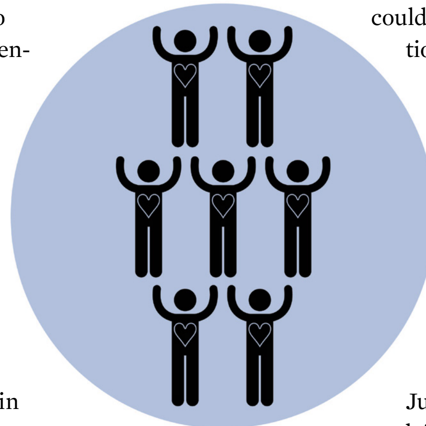
The North American Actuarial Council (NAAC), which is composed of Mexican, U.S.-based, and Canadian actuarial associations, released its annual report for 2015–2016. The Academy participates in and provides support for the meetings of NAAC.

LHQ Seminar Offers CE Credit

THE ACADEMY'S POPULAR 2017 Life and Health Qualifications Seminar, to be held Nov. 12–16 in Arlington, Va., will provide attendees with the chance to earn up to 27 hours of continuing education (CE) credit, including up to 2.7 professionalism hours. Attendees will benefit from three days of training and instruction and have the opportunity for attendees to take the Specific Qualification Standard exam on the final day. Early registration ends on Sept. 15; register now for the lowest rates.

LIFE BRIEFS

- **Brandon Emerson** and **Chuck Ritzke** joined the Annuity Illustration Work Group.
- **Nicholas Carbo**, **Roger Offerman**, and **John Robinson** joined the Annuity Reserves Work Group.
- **Craig Chupp**, **Siksha Dhar**, **Bill Freese**, and **William Leung** joined the SVL Interest Rate Modernization Work Group.
- **Lorne Schinbein** joined the Model Governance Work Group.



"People who are healthy now would tend to choose noncompliant plans with really basic benefits," Uccello told the *Times*, but added that "people who want or need more comprehensive coverage could find it out of their reach, because it might become unaffordable."

The June 30 letter, sent from the Individual and Small Group Markets Committee and the Medicaid Subcommittee, noted that individual market consumers could face "much higher deductibles" under less-generous health insurance plans.

The *New York Times* also quoted Uccello in a July 13 story on a revised health care bill that was being considered by the Senate during ongoing debates among Senate Republicans on what—if any—type of health reform bill they planned to bring up for a vote. (Senate ACA-repeal votes on multiple legislative considerations remained in flux in late July; see "In the News," p. 6, for additional Academy media mentions.)

Cost-Sharing Reduction Payments Commended

The Academy this month also commended the Trump administration for "taking the positive step" of paying July cost-sharing reduction (CSR) reimbursements, noting that the stability and sustainability of the individual health insurance market requires policymakers to fund CSRs on a permanent basis.

"Insurers are making final decisions about rate filings for 2018 and whether to even participate in the individual market," Uccello said. "The continued uncertainty of future CSR reimbursements could lead to higher premiums and possibly additional insurer withdrawals from the market."

And the Health Practice Council (HPC) released answers to frequently asked questions (FAQs) about CSRs, including their history and importance, how they are funded, how many people receive them, and why they should be made permanent and automatic.

Risk Pooling

The HPC also released a new policy paper on July 20 highlighting FAQs on risk pooling and explaining how it works in the individual health insurance market.

The FAQs explore the differences between a single risk pool and separate risk pools, a definition of "adverse selection," why premiums depend on who buys coverage, how risk pooling works in the individual market, and flexibility under ACA rules.

"Although larger risk pools are typically more stable, a large risk pool does not necessarily mean lower premiums," the paper states. "The key factor is the average health care costs of the enrollees included in the pool. Just as a pool with healthy individuals can result in lower-than-average premiums, a large pool with a large share of unhealthy individuals can have higher-than-average premiums."

Finally, the Health Financial Reporting and Solvency Committee this month submitted a proposed amendment related to high-cost risk pooling in the ACA risk adjustment program to the NAIC's Statutory Accounting Principles (E) Working Group.

Why should you **join us** at this year's

ANNUAL MEETING AND PUBLIC POLICY FORUM?

"I've gained a better appreciation for public policy work after I participated in the Academy's work groups and task forces, and attended events like the Annual Meeting."

April Choi
Academy Board Member

Hear what people are saying.

"If you're interested in discussing issues or designing a secure retirement system for the future, then this is the meeting to come to."

Bill Hallmark
Vice President, Pension

"There is a tremendous amount happening in the public policy world, both domestically and internationally, that is relevant to actuaries. It is so important for us to keep up."

Elizabeth Brill
Academy Board Member

NOVEMBER 14–15
2017

FAIRMONT HOTEL ★ WASHINGTON, D.C.
WWW.ACTUARY.ORG/2017ANNUALMEETING

The Academy's ongoing work to provide an actuarial perspective amid the national health care discussion received an abundance of media attention this month:

▲ The July 5 *New York Times* story on health care reform (see story, p. 1) was reprinted by *The Week* and *The Daily Gazette* (Schenectady, N.Y.), while several other media outlets reported on the Academy's letter to U.S. Senate leaders, including *Axios*, *Fierce Healthcare*, *Inside Health Policy*, *BenefitsLink.com*, *Bloomberg BNA*, *Becker's Hospital Review*, *California Broker*, and the subscriber-only *Politico Pro*. *Bloomberg Radio* in New York City, Washington, D.C., and Salt Lake City reported on the letter's comments regarding proposed market stabilization funding.

▲ In addition to the *New York Times* July 13 story (see p. 4), Senior Health Fellow Cori Uccello's comments providing an actuarial perspective on an amendment proposed by Sen. Ted Cruz (R-Texas) to Senate health care legislation were featured in the *Washington Post*, *Morning Consult*, and in local newspapers across the country.

▲ Uccello also discussed the continued uncertainty of future cost-sharing reduction reimbursements in a *HealthDay* story that was reprinted by *WebMD*, *Health.com*, *Philly.com*, *Drugs.com*, *HealingWell.com*, *Doctors Lounge*, and *Health on the Net Foundation*.

▲ In remarks made on the floor of the U.S. House of Representatives and televised live on *C-SPAN*, Rep. Gerald Connolly (D-Va.) cited the Academy's analysis that 2017 health premium increases in a number of states are not necessarily indicative of an ACA premium spiral. An article in *New York* magazine also cited the analysis. Sen. Maria Cantwell (D-Wash.) quoted Uccello's comments to the *New York Times* on the Senate floor live on *C-SPAN2* on July 11.

▲ A *New York Times* opinion piece cited the Health Practice Council's policy paper highlighting FAQs on risk pooling and explaining how it works in the individual health insurance market. The publication was also cited by *PolitiFact*, *Fierce Healthcare*, the Brookings Institution, the *Denver Post*, *The Week*, *Axios*, and the *Washington Examiner*, as well as a Center on Budget and Policy Priorities press release.

▲ Several media outlets reported on the Academy's June 30 comment letter to Senate leaders on health care legislation, including the *Los Angeles Times*, *Boston Herald*, *Chicago Tribune*, *MSN*, *Consumer Affairs*, and the *Morning Call*.

▲ A *Washington Post* column cited the Individual and Small Group Markets Committee's issue brief, *Drivers of 2018 Health Insurance Premium Changes*. The column was reprinted by the *Salt Lake Tribune* and *NJ.com*.

▲ A *Kaiser Family Foundation* story cited the Individual and Small Group Markets Committee's issue brief on association health plans.

▲ A *McClatchy DC* story cited comments from the Health Practice Council's December letter to the U.S. House of Representatives cautioning against repealing the Affordable Care Act without a replacement.

Media outlets also focused on the Academy's analysis on climate risk, flood insurance, and retirement security:

▲ A *21st Century Tech* blog post described how the Academy's jointly sponsored Actuaries Climate Index can help provide valuable data regarding climate change to the actuarial profession, insurers, and the public.

▲ A subscriber-only *Bloomberg BNA* story on the National Flood Insurance Program's debt cited comments by Rade Musulin, the Academy's vice president, casualty.

▲ A *CBS News* story discussing concerns about the funding level of Social Security and Medicare cited the Academy's actuarial perspective on possible solutions.

▲ *PlanSponsor* story cited the Pension Practice Council's issue brief that explores methods to measure the financial health of pension plans. ▲

The ABCDs of Precept 10

By Janet Fagan
Former Chairperson, Actuarial Board for Counseling and Discipline

During the Academy's June 28 professionalism webinar on actuary-to-actuary communications, my co-presenters Academy President Bob Beuerlein and Cecil Bykerk, a former Academy president, and I had a wide-ranging discussion about the precepts of the Code of Professional Conduct that govern communications between actuaries. One topic that I addressed during the webinar—and one that frequently came up during my time on the Actuarial Board for Counseling and Discipline (ABCD)—was Precept 10, "Courtesy and Cooperation," and how that should be understood to apply when a principal replaces one actuary with another actuary.

The Code establishes that a principal has "an indisputable right to choose a professional advisor" and expressly allows an actuary to provide services to the principal "even though such Principal is being or has been served by another actuary in the same matter."[1] When one actuary replaces another, Precept 10 requires both actuaries "to cooperate ... in the Principal's interest." But the prior actuary must follow a few basic ground rules:

- DO cooperate in furnishing relevant information, with the expectation of receiving reasonable compensation for the work required to assemble and transmit pertinent data and documents.
- DO respond in a timely manner.
- DON'T refuse to consult or cooperate with the successor actuary based upon unresolved compensation issues with the principal (unless in accordance with a pre-existing agreement with the principal).

NOTE: You are not required to "provide any items of a proprietary nature, such as internal communications or computer programs."[2]

The basics seem pretty straightforward. But when putting the Code into practice, the devil is in the details. And that is where the ABCD comes in. During my years on the ABCD, many issues involving Precept 10 came before the board. While a few of them arose in the context of discipline cases, most of the questions stemmed from requests for guidance (RFGs) submitted by practicing actuaries.

Here are some common Precept 10 issues that I saw while I was on the ABCD. (The opinions below are my own views, not the views of the ABCD.)

Timeliness of communications: There can be an awful lot of foot-dragging when a prior actuary does not want to do additional work, such as providing information to the successor actuary. A prior actuary may also be worried about a problem with the work he or she did for the principal and may not be in a hurry to help the successor actuary. It may be the actuary's "busy season." But the rule of thumb is pretty simple: Under Precept 10, communications must be conducted in a timely fashion and only reasonable amounts of time should pass between the successor's request and the prior actuary's response. (In 2011, the ABCD found an actuary in violation of Precept 10 because he did not provide requested documentation "until several months after it was first requested.")

Provision of information: The prior actuary may struggle over how much information to share with a successor actuary. While difficult to judge in the abstract, in general the prior actuary needs to provide sufficient detail such that either the work of the prior actuary can be reproduced or another actuary qualified to do the work can reasonably assess the quality and validity of the prior actuary's work.

Disclosure of all material assumptions: For a variety of reasons, a prior actuary may not want to disclose all of the material assumptions of his or her work product. The assumptions may be very aggressive, or they may be outdated. Regardless of the reason, the prior actuary is required to disclose material assumptions to the successor actuary—perhaps not every little detail, but certainly those details that the prior actuary thinks are important. When asked about other assumptions, the actuary should either explain that they are not material or provide them to the successor actuary.

Other Precept 10 questions are more difficult to answer in the abstract, and generalized responses are not appropriate. That is where the RFG process is most helpful.

During my tenure with the ABCD, I saw firsthand how important compliance with Precept 10 is if actuaries are to fulfill their responsibilities to the actuarial profession and to the public. While the burden of compliance rests with each individual actuary, my experience has shown me that the ABCD can help actuaries think through the facts and approach difficult actuary-to-actuary conversations as true professionals. To find out more about RFGs and how to ask for guidance, please visit the ABCD website.

[1] Annotation 10-2.
[2] Annotation 10-5.

COPLFR Comments on Title Insurance

THE COMMITTEE on Property and Liability Financial Reporting submitted comments to the NAIC's Title Insurance Financial Reporting Working Group that raised questions about proposed changes to the way reserves are reported in the title statement of actuarial opinion.

The letter stated that the proposal is unlikely to benefit regulators in assessing title insurer solvency; it does not reflect currently existing ambiguity in *Statement of Statutory Accounting Principle (SSAP) No. 57—Title Insurance*; and it is likely to cause disruption to the title industry financial results and users of the title insurer statutory financial statements in its implementation.

Registration Open for P/C Loss Seminar

REGISTRATION opened this month for the 2017 Seminar on Effective P/C Loss Reserve Opinions. This two-day seminar, to be held Dec. 7–8 in Chicago, will prepare you for opinion season by enhancing your expertise on the latest regulations with reviews of actuarial qualification standards and interactive case studies. Early registration rates are available through Aug. 31, so register today for the lowest rates.

CLRS Registration Open

REGISTRATION is open for the 2017 Casualty Loss Reserve Seminar and Workshops (CLRS). This year's seminar, jointly sponsored by the American Academy of Actuaries and the Casualty Actuarial Society, will be held Sept. 10–12 at Loews Philadelphia Hotel. The agenda offers more than 60 sessions and pre-seminar workshops aimed at covering current issues in loss reserving. Visit the CLRS website to see the program guide, lodging details, and registration information. Early registration is available through Aug. 18; register today.

Professionalism Outreach

COUNCIL ON PROFESSIONALISM member Cecil Bykerk presented July 26 to the Kansas City Actuaries Club on developments in actuarial professionalism. Bykerk provided an overview of the infrastructure of U.S. actuarial professionalism, and recapped the past year's activities of the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline.

Financial Regulatory Task Force Submits Comments on FSOC Bill

THE FINANCIAL Regulatory Task Force submitted comments to the U.S. House Financial Services Committee on H.R. 3110, the *Financial Stability Oversight Council (FSOC) Insurance Member Continuity Act*.

The letter said the bill is "a positive step for the Committee on Financial Services because it ensures that there is continued representation on the FSOC by an independent member with insurance expertise.

"We support Congress modifying the term of the independent member, as it guarantees that for at least another 18 months there is no time period in which the council does not have the critical voice of a voting member," it said. "The uninterrupted participation of the independent member with insurance expertise is necessary to make certain that FSOC can rely on the expertise of the insurance sector."

Nonforfeiture Work Group Sends Final Report to LATF

THE NONFORFEITURE MODERNIZATION Work Group sent its final report on issues and considerations around updating the existing nonforfeiture laws for life insurance and annuity products to the NAIC's Life Actuarial Task Force.

The document outlined summaries of previous reports, including those in August 2011 and August 2014, and noted that if nonforfeiture rules were based on gross premium nonforfeiture method (GPNM) as envisioned by the work group, certain currently offered products would be affected.

Examples include: level premium term plans would no longer need to use a whole life chassis with a high premium period after the level term period; universal life products with premium-based secondary guarantees would not generally be able to meet the actuarial requirements for nonforfeiture factors; annuity products with additional options such as living benefits or market value adjustments would need to provide additional value in order to comply with these requirements to the extent the options are in the money; and traditional guaranteed fixed level premium life products, with premium differentials among classes but only one set of tabular cash values for all classes, would not meet the GPNM requirements for nonforfeiture factors.

Extra-Early Deadline Extended for Sept. PBR Boot Camp

REGISTRATION is now open for the Academy's popular PBR Boot Camp, to be held Sept. 11–13 in Las Vegas. The agenda at a glance is available for Academy's fourth Boot Camp, which will include new content aimed at providing information to regulators and those working closely with regulators about how to implement and audit principle-based reserving (PBR)—with essential background information and key learning experiences. Extra-early registration rates are available through Aug. 4; register today.

Work Group Submits Comments on RBC

THE C1 WORK GROUP submitted comments to the NAIC's Investment Risk-Based Capital Working Group on its recent proposal on RBC requirements for real estate, exposed April 9 by the NAIC's Investment Risk Based Capital Working Group.

That exposure is an update to the American Council of Life Insurers' (ACLI) proposal of Aug. 7, 2015, "Life Insurer C-1 Asset Risk-Based Capital Requirement—Real Estate." As it has stated previously, the work group reiterated its support of a lower capital charge for equity real estate than is currently in the Life RBC formula.

The comment letter addressed several data questions, as well as income offset and market value adjustment, and stated it would like to see additional consideration and explanation of certain aspects of the proposal.

Tax Work Group Releases LTD Issue Brief

THE LIFE PRACTICE COUNCIL'S Tax Work Group released an issue brief July 28, *Claim Reserve Assumption Basis for Long-Term Disability Policies*, to provide an overview of private-sector disability insurance, the current tax rules for long-term disability (LTD) reserves, and the implications of calendar year versus incurral year as the basis for determining the interest rate used to calculate the present value of future payments for claims incurred.

The issue brief offers background on LTD insurance, and notes that prior legislative tax reform proposals have included language requiring the interest rate used to discount the value of future claim payments for disability insurance benefits be determined as of the calendar year of issue rather than the calendar year of incurral.

To be consistent with current statutory accounting regulations, the assumptions for calculating tax-deductible claim reserves would need to be based on the calendar year in which a claim is incurred and not the calendar year in which the policy was issued, it states.

The incurral date is both the date as of which the insurer is obligated to pay disability payments and is first required to establish claim reserves—by setting the claim reserves assumptions on the incurral date, the valuation actuary is able to reflect all of his or her current information.

Academy Presents to Federal Reserve Board

SENIOR LIFE FELLOW Nancy Bennett and Tom Campbell, chairperson of the Life Valuation Committee's AG 43/C3 Phase II Work Group, presented to the Federal Reserve Board Insurance Industry Work Group on regulatory capital requirements for life insurers.

They provided background information, including the history of risk-based capital (RBC) and the U.S. solvency framework, as well as the purpose of regulatory RBC, including risks covered by and formula basics of life RBC; discussed development of specific RBC factors; and looked at market risks, including RBC requirements for both fixed and variable annuities.

They also covered market risk, components for life insurance and fixed annuities, cash flow testing and modeling assumptions, and observations on RBC including modernizing the U.S. solvency framework.

Subgroup Offers Insight on Amendment VM-31

THE VM-31 SUBGROUP submitted comments to the NAIC's Life Actuarial Task Force on an amendment to eliminate the summary of methods and assumptions that covers multiple product groups in the executive summary.

The letter noted that changes to Section 3.C (formerly an overview, now executive summary) eliminate the summary of methods and assumptions, which would have covered multiple product groups, and suggested that when VM-31 is next updated, the executive summary be expanded to include a brief description of methods, assumptions, and risk management practices, with an explanation for differences between product groups.

Interest Rate Generator FAQs Updated

THE JOINT ECONOMIC Scenario Generator Project Oversight Group updated a frequently asked questions (FAQ) document on the Academy's Interest Rate Generator (AIRG).

The document offers background on the generator and addresses questions including:

- What is the status of the AIRG? Has it been approved for use in VM-20 reserves and C3P3?
- Is the AIRG approved for use in C3P1, C3P2, and AG43?
- Are proprietary generators allowed in regulatory calculations?
- What enhancements were included in the 2010 release of the AIRG?

Subgroup Submits Comments to LATF

THE ACCELERATED Underwriting Project Oversight Group, reporting to the Academy's Life Experience Committee and the Society of Actuaries' (SOA) Preferred Mortality Oversight Group, submitted comments to NAIC's Life Actuarial Task Force (LATF) discussing future experience study data elements.

Products underwritten using limited medical information is not fully addressed within VM-20, and using the existing mortality tables for the valuation of business may not be appropriate, the group wrote, and the development of mortality tables using limited underwritten experience may be necessary in the long term.

Issue Brief Released on Medicare Trustees Report

FOLLOWING THIS MONTH'S RELEASE of the annual Medicare Trustees Report, the Medicare Subcommittee published an issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*, outlining significant concerns about Medicare's long-term financial health.

Among the issue brief's findings were that the federal hospital insurance trust fund is projected to be depleted in 2029, leaving only about 10 years to find a solution; total Medicare spending will continue to grow faster than the economy, increasing the pressure on beneficiary household budgets and the federal budget and threatening the program's sustainability; and changes are needed to improve Medicare's long-term solvency and sustainability.

"The longer corrective measures are delayed, the worse the financial challenges will become and the greater the burden that might be imposed on beneficiaries and taxpayers," the issue brief stated.

With the latest information, the Academy also updated its *Essential Elements* report on Medicare's long-term sustainability challenges.

Health, Casualty Letter to NAIC Addresses RBC Factors

THE PROPERTY AND CASUALTY Risk-Based Capital Committee and the Health Solvency Subcommittee wrote a joint letter to the NAIC Investment Risk-Based Capital (E) Working Group (IRBCWG) on its exposure of the C1 Work Group's "Updated Recommendation of Corporate Bond Risk-Based Capital (RBC) Factors" June 8 letter.

It noted that P/C and health factors have been unchanged since the first adoption of RBC for P/C and health insurers, and that in 2001 the life factors were revised for tax considerations, but P/C and health factors were not updated at that time.

The groups concluded:

- The alternative base factors provide a good starting point to account for the credit risk contained in statutory life reserves. Additional research needs to be performed to ensure appropriate adjustments are applied to account for other differences between life and P&C/health statutory reporting and business practices. The Academy is prepared to research these areas further; and
- As this research will be time-consuming, the IRBCWG could consider adopting the factors presented as outlined in the letter, on a post-tax basis. These factors could then be replaced with recommended factors after further research is completed.

HEALTH BRIEFS

- **Julian Levin** and **Derek Skoog** joined the Health Solvency Subcommittee.

Committee Releases Issue Brief on Social Security Trustees Report

THE SOCIAL SECURITY COMMITTEE released an issue brief in late July on Social Security's financial condition and long-term sustainability following the federal government's release of the annual Social Security Trustees Report. The Academy also updated its *Essential Elements* report on the program.

The combined Social Security trust fund reserves are projected to become depleted during 2034, the same year as projected in last year's report. If changes are not implemented by that date, only about 77 percent of scheduled benefits would be payable after 2034, declining to 73 percent in 2091. However, the Social Security Disability Insurance (DI) trust fund will exhaust its reserves in 2028, five years later than in last year's projection.

Disability experience was well below what was expected. As the trustees report shows, the projected depletion date for the DI trust fund is extremely sensitive to changes in disability experience, which is the primary reason for the five-year increase in the projected DI trust fund depletion date.

To bring Social Security into actuarial balance for the next 75 years (using the intermediate assumptions), changes equivalent to either an immediate increase of 2.76 percentage points in the payroll tax rate or an immediate decrease of about 17 percent of benefits for all current and future beneficiaries, or some combination thereof, is required, the issue brief stated.

Pension Committee Members Visit Capitol Hill

Members of the Academy's Pension Committee visited U.S. Senate, House, and committee staff on Capitol Hill July 27–28 to discuss multiemployer plan issues. From left are Eli Greenblum, past vice president, pension; Ellen Kleinstuber, chairperson of the Pension Committee; and Aaron Weindling.

Issue Brief Adresses Various Methods of Measuring Pension-Plan Health

THE PENSION PRACTICE COUNCIL published an issue brief, *Assessing Pension Plan Health: More Than One Right Number Tells the Whole Story*, which explores various methods to measure the financial health of pension plans.

Among its findings are that a single number often cannot comprehensively address an issue as complex as the obligation or funded status of a pension plan; the availability of multiple measurements can lead to a more robust understanding of the situation and more well-reasoned conclusions; the purpose, framework, and underlying assumptions used are critical when interpreting available information; and understanding that there is more than one right number is an essential step toward engaging in critical issues of retirement security.

The issue brief noted that assumptions can vary, and for a given type of valuation (such as a budget or settlement measurement) a question remains as to what assumptions will be used. Just as two financial advisers could reasonably provide different advice to parents saving for a child's college costs, two actuaries could separately develop either a budget or settlement valuation for a plan and not agree on the valuation result because they are making different assumptions about future experience, the issue brief noted.

"Understanding the purpose, framework, and underlying assumptions used is critical when attempting to interpret available information," according to the issue brief. "In many pension decision-making processes, the availability of multiple measurements can lead to a more robust understanding of the situation and, consequently, more complete and well-reasoned conclusions."

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