Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy Announces Slate of Officer Nominees for Board of Directors

THE ACADEMY'S NOMINATING COMMITTEE has placed five individuals in nomination for officer positions on the Academy Board of Directors, with terms beginning in November.

In addition to Shawna Ackerman, nominated to serve as the Academy's next president-elect (which was announced in the April edition of *Actuarial Update*), the nominees include:

- Tom Campbell, a member of the Committee on Qualifications and a former vice president of the Life Practice Council (LPC), to serve a second year as the Academy's secretary-treasurer, a position that is elected annually by the Board for up to three consecutive terms;
- Laurel Kastrup, currently a regular director on the Board, for vice president, to serve as chairperson of the Risk Management and Financial Reporting Council;
- Dave Neve, former Board member and former vice chairperson of the LPC, for vice president, to serve as chairperson of the LPC; and
- Josh Shapiro, chairperson of the Multiemployer Plans Subcommittee, for vice president, to serve as chairperson of the Pension Practice Council (PPC).

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Campbell


Kastrup


Neve


Shapiro

Webinar Highlights Progress in Actuaries Climate Index

THE ACADEMY HOSTED a complimentary webinar May 18 on the Actuaries Climate Index, providing an overview of the jointly sponsored project that kicked off last November, looking at the ACI's components and future plans, and offering an introduction to the Actuaries Climate Risk Index (ACRI).

The Academy and the three other sponsoring actuarial organizations in the United States and Canada—the Canadian Institute of Actuaries (CIA), the Casualty Actuarial Society (CAS), and the Society of Actuaries (SOA)—updated the ACI in March with the most recent spring and summer 2016 data, which showed it reached the third-highest seasonal level recorded, with an index value of 1.72. The five-year moving average stands at 1.03.

"The stakeholders have dedicated a lot of effort in developing the indices over the past several years and have made multiple presentations to their members, as well as the Academy and CIA making presentations to public policy stakeholders in their respective countries ... [including] in front of regulators, legislators, and government agencies," said Jim MacGinnitie, the Academy's senior casualty fellow, during the webinar.

That outreach effort most recently included a March presentation MacGinnitie gave on the ACI and ACRI to the Inter-Agency Forum on Climate Change Impacts and Adaptations meeting at NASA headquarters in Washington.

More than 800 participants attended the webinar on the ACI, which is based on an analysis of quarterly seasonal data for six different components collected from data starting in 1961.

Doug Collins, chair of the ACI's Climate Change Committee and a presenter in the webinar, said

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8 CPC presents on predictive modeling at NAIC Summit
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26 Webinar: A Discussion of the Exposed Credit for Life Reinsurance Practice Note

28 Professionalism Webinar: Actuary-to-Actuary Communications

NOVEMBER

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

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

DECEMBER

7–8 Seminar on P/C Effective Loss Reserve Opinions, 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*

Academy Service Awards Nominations Due June 30

A REMINDER TO MEMBERS that the deadline for nominations for the Academy's annual service awards is June 30. The awards—the Robert J. Myers Public Service Award, the Jarvis Farley Service Award, and the Outstanding Volunteerism Award—will be presented at the Academy's Annual Meeting and Public Policy Forum Nov. 14–15.

Outstanding Volunteerism Award

Academy Launches New Publication, *Casualty Quarterly*

CASUALTY QUARTERLY

THE ACADEMY PUBLISHED a new newsletter, *Casualty Quarterly*, which looks at recent property/casualty news and highlights recent P/C legislation and regulation. The inaugural issue covers issues surrounding the National Flood Insurance Program, which is up for congressional reauthorization in September; the Academy's recent flood insurance monograph; and more.

Recently Released

THE MAY/JUNE ISSUE of *Contingencies* features a cover story, "Outer Space for All," that looks at the risks that individuals will bear in a new era of commercial spaceflight. Other articles explore how a shift in societal attitudes has changed views of risk; regulatory changes that are creating strikingly new environments; and "Bayes' Gift" covers how actuaries discovered (and rediscovered) a powerful analytical tool. And in Part 2 of the "Professionalism in Action" series, President Bob Beuerlein explores professionalism and actuary-to-actuary communications.

The May *HealthCheck* covers this month's risk adjustment issue brief, Senior Health Fellow Cori Uccello's participation in a Capitol Hill forum on the individual insurance market, the Health Practice Council's issue brief on making the individual health insurance market more sustainable, and federal and state health regulatory and judicial updates.

The latest issue of *ASB Boxscore* covers revisions to Actuarial Standard of Practice (ASOPs) No. 5 and to an exposure draft of ASOP No. 17, the approval of an exposure draft on a proposed ASOP for principle-based reserves for life products, and highlights from the ASB's annual report.

Academy NEWS

Extra-Early Registration Deadline Is June 20 for Annual Meeting and Public Policy Forum

WHAT DO THE MANY changes occurring in Washington mean for your work as an actuary? Join us at the Academy's 2017 Annual Meeting and Public Policy Forum, to be held Nov. 14–15 in Washington, D.C., for an in-depth look at today's top public policy and professionalism issues. Watch our new video on why you should attend this year's event. Register today for the best discounts; extra-early registration rates are available through June 20.

> *"Given the pace of regulatory change in today's world, it is critical to stay abreast of public policy issues impacting the profession. The Academy's Annual Meeting is unique in that it addresses these issues directly, with expert panels and speakers."*
>
> —**Elizabeth Brill,** Academy Board member and previous attendee

Former Sen. Chris Dodd greets fellow keynote speaker, Oregon Insurance Commissioner Laura Cali, at last year's meeting

Academy Hosts Third PBR Boot Camp

THE ACADEMY HELD its third PBR Boot Camp in Orlando, Fla., May 22–24, a three-day seminar that featured 18 dynamic, interactive sessions. The limited audience of 105 attendees received targeted instruction and also participated in intensive, focused discussion groups, providing an opportunity for attendees to share insights and learn from others' experience following January's PBR implementation.

"The discussion among participants was as important as the presentations from the speakers," said Linda Lankowski, a PBR Boot Camp faculty member. "Companies are obviously taking PBR seriously, and we had interesting discussions about approaches to what we're facing."

Topics included modeling and model governance; stochastic, deterministic, and net premium reserves; setting mortality assumptions, as well as all other liability assumptions; determining assets to back PBR reserves and setting asset assumptions; reinsurance experience studies and pricing considerations; reporting regulatory and auditing reviews; and PBR checklists and other helpful sources of information.

Lankowski leads a Q&A session

"This is the best educational seminar I have attended in years," said Cande Olsen, a PBR Boot Camp attendee and a former Life Practice Council vice president. "The content of the presentations included the perfect mix of detail and high-level overview, including intent and history of the requirements being discussed."

In response to the success of the three boot camps to date, but also recognizing the need for more focused offerings, the Academy will host its fourth PBR Boot Camp in September, which will be targeted to regulators. Details will be available soon.

Presidential Committee—Big Data Task Force

Bob Beuerlein is chairperson of the new Big Data Task Force, and the following actuaries are members of the task force: **Mary Bahna-Nolan**, **Karen Bender**, **Elena Black**, **Elizabeth Brill**, **Patrick Causgrove**, **Robert Curry**, **Ian Duncan**, **Seong-Min Eom**, **Andy Ferris**, **Audrey Halvorson**, **William Hines**, **Liaw Huang**, **Bob Miccolis**, **Dave Sandberg**, **Martin Snow**, and **Jim Toole**.

June 6 Global Webinar to Look at Pandemic Risks

THE ACADEMY WILL HOST "A Global Look at Pandemic Risk," a webinar examining escalating factors for epidemic and pandemic risks, as well as the costs associated with responding to risks in terms of infrastructure, technology, and lifestyle modifications. Presenters will discuss examples of the calculation and observation for different indices, including infrastructures for public health communication, institutional capacity, and economic factors. They will also share case studies on the United States, Canada, Israel, China, Singapore, and more. The webinar will be held on Tuesday, June 6, from 1 to 2:30 p.m. EDT. Register today.

Board, continued from page 1

"It's been a tremendous experience serving the Academy over the past year as secretary-treasurer, and I look forward to doing so again next year," Campbell said. "Being part of the leadership team that addresses the needs of our profession—and our relationship with the public and policymakers—is both a gratifying and a humbling experience."

Kastrup said "the changing role of the actuary in risk management, along with domestic and international policy and practice changes, make it an exciting and important time to lead the Risk Management and Financial Reporting Council. I look forward to the opportunity to work with council members and those in other practice areas on the issues that are shaping our profession."

"With more and more Americans retiring without traditional pension benefits, and many traditional defined benefit plans facing financial challenges, there is a need for new thinking and new ideas regarding the delivery of retirement benefits," Shapiro said. "Bringing actuarial expertise to bear in these discussions is a critical role for the PPC, and I am deeply honored to have the opportunity to help make that happen as vice president."

"There are many different moving pieces right now affecting the life practice area, including [principle-based reserving] implementation, new lifetime income product designs, new underwriting approaches, and the impact of low interest rates," Neve said. "The LPC and its component groups have performed a great deal of essential work in these and other areas through the Academy over the years—vital work that needs to continue, and I will focus on that as vice president."

Vice presidents serve two-year terms on the Academy's Board. Currently serving and continuing vice presidents—Rade Musulin, of the Casualty Practice Council; Shari Westerfield, of the Health Practice Council; and Joeff Williams, of the Council on Professionalism—were elected to their positions last year.

The nominating process is designed to ensure that all candidates bring deep expertise, experience, and balance to the Board, and also significant knowledge of the Academy's history, mission, and priorities.

This year's Nominating Committee, a presidential committee, is chaired by Past President Mary D. Miller; its members are Steve Alpert, Bob Beuerlein, Bill Hallmark, Ken Hohman, Jeffrey Schlinsog, Lisa Slotznick, Tom Wildsmith, and Joeff Williams.

Per the Academy's bylaws, this slate will be voted on by the Board at its annual meeting in October. Terms will begin at the completion of the Academy's Annual Meeting, to be held Nov. 14 in Washington, D.C., as part of the 2017 Annual Meeting and Public Policy Forum.

For more information about the Nominating Committee guidelines for selection of candidates and other election details, please visit the Academy's Board Election Center. Regular director candidates, elected by the membership at large in an online election over the summer, will be announced in the near future.

ACI, continued from page 1

the ACRI, which is expected to be launched early next year, "incorporates risk by using analysis of correlations between the climate components in the ACI and economic losses, mortality, and injuries." The ACRI's categories are wind, heat, drought, flooding, and wildfire—with the most significant damage from flood and wind damage, he noted.

ACTUARIES CLIMATE INDEX
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Caterina Lindman, a member of the CIA's Climate Change and Sustainability Committee, said the ACI's newest results are scheduled to be released in June.

Ronora Stryker, a research actuary at the SOA, gave an overview of the ACI's website, noting that in the six months it has been live, the site has had more than 16,000 visitor sessions from more than 100 countries and about 1,000 data downloads.

MacGinnitie urged attendees to take several actions, including:

- Learn and follow measures of changing climate.
- Distinguish between changes in climate and changes in weather.
- Follow changes of climate over time and estimate how risk distributions change.
- Translate global risk distribution changes into their impact on local situations.
- Estimate the impacts of change on exposures at risk in various locations.

"As climate changes over time, the distribution of risk profiles changes as a result—actuaries will need to learn how to take that into account in their projections, in their pricing, and in their strategic considerations," he said.

Slides and audio are available without cost to members on the Academy's webinar page.

IN THE NEWS

An *Associated Press* story discussing expected health insurance premium hikes in the individual market quoted Senior Health Fellow Cori Uccello on how uncertainty regarding the regulatory environment for 2018 is affecting premiums. More than 600 media outlets—including the *Chicago Tribune*, *CNBC*, *CBS News*, *Fox Business*, *San Francisco Chronicle*, and *The Washington Times*—published the story. *The Atlantic* and *NBC News* quoted Uccello on continued uncertainty among insurers regarding payment of cost-sharing reductions. The NBC story was reprinted by several media outlets, including *WRCBtv.com*, *Insurance Co*, and *Insurangle*. A *HealthPayer Intelligence* article on Section 1332 state waivers for high-risk pools and reinsurance also cited separate comments made by Uccello on regulatory uncertainty. *National Journal* (login required) and *Bloomberg BNA* quoted Uccello's comments on the continuous-coverage provisions of the American Health Care Act (AHCA).

A *Pensions & Investments* story discussing the effects on plans and plan sponsors of a forthcoming IRS update to mortality tables quoted Pension Committee Chairperson Ellen Kleinstuber. A subscriber-only *Bloomberg BNA* story on the same topic quoted Senior Pension Fellow Ted Goldman.

The American Medical Association (AMA) cited Academy analysis of high-risk pools in a news release regarding provisions of the AHCA. The news release was reprinted by *Medical Association of Georgia*, *InsuranceNewsNet*, *The Lund Report* (Ore.), *DOTmed.com*, *Public-Now* (Canada), and *Health News Digest*. A separate story published by *Healthcare Finance* on the AMA statement also cited the Academy.

The Individual and Small Group Markets Committee and the Medicaid Subcommittee's comment letter to the U.S. House of Representatives was cited in a *Bloomberg BNA* interview with Brian Blase, special assistant to the president in the National Economic Council.

A weekly series published by Deloitte cited the Health Practice Council's issue brief examining ways the individual health insurance market can be strengthened and made more viable.

A *Kaiser Health News* morning briefing cited the Risk Sharing Subcommittee's issue brief examining the risk adjustment program implemented under the Affordable Care Act (ACA) and the implications for the program under different potential changes to current health insurance market rules. The issue brief was also cited by *Healthcare Dive*, *Advisor Magazine*, and *Benefits Link*.

The *AMAC Foundation* cited the Social Security Committee's issue brief discussing gender-related factors that can cause differences to the benefits women and men receive from Social Security. The issue brief was also cited by *Advisor Magazine*.

An *Insurance Co* article discussing the public policy trade-offs involved in lowering health insurance premiums cited Academy analysis of premium changes.

A *PolitiFact* article on the challenges facing Iowa's federal health insurance marketplace for 2018, which was reprinted by the *Tampa Bay Times*, quoted Risk Sharing Subcommittee Chairperson Barbara Klever on factors that affect individual market stability.

A *Healthcare Dive* story quoted Uccello on the considerations insurers may be weighing in decisions on whether or not to continue participation in ACA exchanges.

The Health Practice Council's concerns regarding the uncertainty surrounding cost-sharing reduction (CSR) payments, expressed in Dec. 7 letters to the U.S. House and Senate, were quoted in a letter about CSRs from 196 House Democrats to President Trump, sent May 24.

A *North Carolina Health News* article discussing a bill to change the process by which mesothelioma patients sue for damages cited the Academy's 2007 public policy monograph, *Overview of Asbestos Claims Issues and Trends*.

The Center for American Progress cited a Medicaid Funding Work Group issue brief in its analysis of the effects of state caps on Medicaid funding.

Professionalism Outreach

ACTUARIAL BOARD for Counseling and Discipline (ABCD) Chairperson Rick Block gave a professionalism overview at the Southern California Casualty Actuarial Club's May 10 meeting in Pasadena. The presentation reviewed the ABCD's function, roles, and 2016 activities, followed by a review of the Code of Professional Conduct and a discussion of case studies illustrating practical applications of professionalism standards and considerations. More than 80 club members attended.

Former Actuarial Standards Board (ASB) Chairperson Al Beer delved into the question of "What Does It Mean for an Actuary to Act 'Professionally'?" in a presentation to the Actuaries Club of Philadelphia (ACP), also on May 10. Beer covered how the actuarial professional is defined within the U.S. professionalism infrastructure, including under the Code of Professional Conduct and in U.S. Qualification Standards. About 100 people attended, and ACP Secretary Art Lucker said he received many compliments from ACP members regarding Beer's presentation.

Block

Beuerlein Shares Professionalism History, Tips With N.Y., Hartford/Springfield, and Pacific Life Actuaries

The broad societal consequences of the actuarial profession's work are at the root of the Academy's public policy and professionalism mission, Academy President Bob Beuerlein told hundreds of attendees at the Actuarial Society of New York and Actuaries' Club of Hartford & Springfield meetings May 15–16, and at Pacific Life's actuarial conference on May 23.

In his presentation, "Professionalism in Practice," Beuerlein described how the desire for a publicly recognized cross-practice qualification or "accreditation" of actuaries whose work affects millions of benefits recipients was the genesis of the Academy. From that beginning, the current professionalism structure of actuarial self-regulation emerged over time, including the Code of Professional Conduct, the U.S. Qualification Standards, the ASB, and the ABCD.

Key to professional self-regulation, Beuerlein explained, is the support provided to qualified actuaries to assist them in applying professional standards in daily practice. He called attendees' attention to the FAQs on the U.S. Qualification Standards, the Applicability Guidelines for Actuarial Standards of Practice, and requests for guidance from the ABCD as examples of resources established through the Academy's history to that end.

Beuerlein also facilitated Q&A on specific life-practice related professionalism issues at several sessions of the Pacific Life conference.

ASB Adopts Final Revision of ASOP No. 5

THE ASB ADOPTED a final revision of Actuarial Standard of Practice (ASOP) No. 5, *Incurred Health Claim Liabilities*. It will be effective Sept. 1.

ASOP No. 5 provides guidance to actuaries when estimating or reviewing incurred claims when preparing or reviewing financial reports, claims studies, rates, or other actuarial communications as of a valuation date under a health benefit plan. It has been updated to reflect relevant legal, regulatory, and practice developments that have occurred since the 2000 revision.

Professionalism Webinar Set for June 28 on Actuary-to-Actuary Communications

THE ACADEMY WILL HOST a professionalism webinar, "Actuary-to-Actuary Communications," on Wednesday, June 28, from noon to 1:30 p.m. EDT. Presenters Academy President Bob Beuerlein, Council on Professionalism member Cecil Bykerk, and Actuarial Board for Counseling and Discipline Immediate Past Chairperson Janet Fagan will discuss relevant precepts of the Code of Professional Conduct, discuss case studies, and give attendees insights on how the Code and other professionalism tools can help guide successful actuary-to-actuary communication.

The Academy believes in good faith that attendees will have the opportunity to earn up to 1.8 continuing education credits as well as 1.8 continuing professional education credits for core ethics under the Joint Board for the Enrollment of Actuaries rules. Register today.

Critical Stages: Professionalism at Career Transition Points

By Joeff Williams, Vice President, Professionalism, and Keith Passwater, Chairperson, Committee on Qualifications

LIFE STAGES ARE DEFINED in many ways. Several months ago, we were sharing our family activities, talking about how quickly our children grow up. Our children are at different stages in their lives, but we both see the milestones pretty vividly: a daughter got married and bought a first house; another daughter graduated college and began her journey into a future legal career; a son planned to spend the summer away from home—in Africa.

The metaphor of stages and the changes they bring resonates with our volunteer work on professionalism, too. At January's Council on Professionalism (COP) meeting, we invited some local actuaries to a roundtable discussion about the practical application of professionalism to issues that they deal with every day. The attendees consisted of a wide spectrum of actuaries at various stages in their actuarial careers, ranging from recently credentialed actuaries to more experienced chief actuaries.

We found that most actuaries encounter similar career stages. You start taking that first exam either in school or during your first job. You pass a few exams and progress through the student ranks, and then attain your first professional designation. After a few more years, you may move to a new management position overseeing a few actuaries and a specific area. Then you may find yourself in an executive position over several departments. You could be consulting and dealing directly with clients. Before you know it, you are being asked to sign NAIC statements and need to consider specific qualification requirements. All through this process, the professionalism issues are changing as well. Student, newly credentialed actuary, manager, chief actuary—over the course of your career, the roles you play, the actuarial services you provide, the organization in which you work, and many other practice parameters will change. And, at each stage of your career, the Code of Professional Conduct provides guidance on how to put professionalism into practice.

The COP meeting discussion confirmed our belief that professionalism needs to be reinforced at each stage of an actuary's career. When actuaries first start taking exams, they may view professionalism as an abstract moral code. But after they pass a few more exams and earn their first professional designation, suddenly actuarial professionalism—adhering to the Code, and by extension, standards of qualification and practice—becomes a requirement for every actuarial service they provide. And beyond actuarial services, the Code requires actuaries to uphold the reputation of the actuarial profession in everything they do. Moving up the career ladder can bring new practice, professional, and personal demands, such as overseeing the work of other actuaries or being responsible for signing NAIC statutory statements that have specific qualification requirements.

Actuaries may also face other types of career transitions, such as moving from a big company to consulting, or even starting their own practice. Outside factors—such as a promotion within a large corporation or an unplanned early retirement—may present new professionalism challenges. For example, Keith recounted that he was honored to be named a chief actuary. In that role, relatively distant from the staff performing the actuarial work, he could not possibly check everyone's work, nor could he personally ensure every actuary in the group was referencing the appropriate standards for their work. Instead, he focused on fostering a culture of professionalism in the organization.

As actuaries progress in their careers, professionalism moves from the realm of the abstract to the realm of the practical. They begin to see situations where more significant professionalism questions come into play. It is at these times when actuaries can use the many tools the Academy provides to help handle those situations and incorporate professionalism into their daily practice.

The Code lays the groundwork for career transitions by stating that an actuary "must be familiar with, and keep current with" the Code. That is, an actuary must know each precept of the Code, as well as the standards of qualification and practice, and participate fully and cooperatively in the counseling and discipline process. The scope of the Code is broad and covers issues ranging from those that are directly relevant on Day 1 of your actuarial career to problems that may not emerge until you have had years of experience. As your career changes, you need to refresh and reinforce your knowledge of the Code and standards to understand how they apply to your current practice.

The same can be said of the standards of qualification and practice. The U.S. Qualification Standards require actuaries to "maintain necessary expertise through continuing education" in order to stay qualified to issue statements of actuarial opinion throughout their actuarial careers and to "regularly review their qualifications."[1] Precept 3 of the Code not only requires actuaries to "observe" and "keep current regarding changes" in the standards of practice, but makes it clear that they are responsible for ensuring compliance with those standards, whether they perform the actuarial services themselves or oversee the work of another actuary.

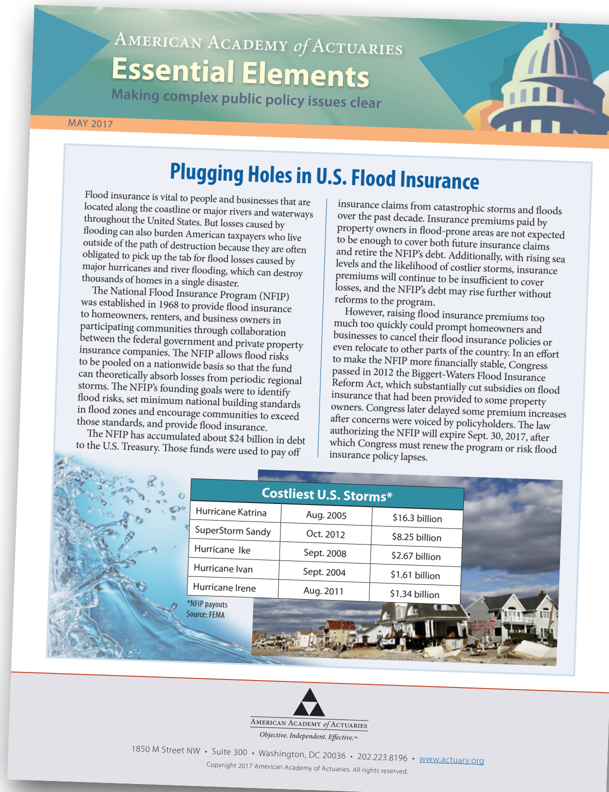
At each transition point in your career, we encourage you to think about the professionalism implications of your new position. Professionalism is not just something you need for your exams; it stays with you throughout your career. Just as parents adjust their approach to parenting to fit their child's stage of life, so must actuaries adjust their approach to professionalism at each stage of their careers.

[1] Sections 1.2 and 1.5

CPC Visits Capitol Hill to Meet With Senate Staff on Flood Insurance Legislation

REPRESENTATIVES FROM the Casualty Practice Council (CPC), including Rade Musulin, vice president for casualty, and Senior Casualty Fellow Jim MacGinnitie, met with U.S. Senate staff members May 10–11 on Capitol Hill. They discussed the recent [flood insurance monograph] and potential flood insurance legislation with staff of Subcommittee on Securities, Insurance, and Investment Chairman Dean Heller (R-Nev.), ranking minority member Mark Warner (D-Va.), and several other senators. The National Flood Insurance Program's (NFIP) legal authority is scheduled to expire Sept. 30, and Congress is considering reauthorizing the program—which was established in 1968—as it has in the past.

Related, the Academy this month updated the *Essential Elements* report, *Plugging Holes in U.S. Flood Insurance,* which looks at challenges related to the NFIP.


American Academy *of* Actuaries

Essential Elements

Making complex public policy issues clear

MAY 2017

Plugging Holes in U.S. Flood Insurance

Flood insurance is vital to people and businesses that are located along the coastline or major rivers and waterways throughout the United States. But losses caused by flooding can also burden American taxpayers who live outside of the path of destruction because they are often obligated to pick up the tab for flood losses caused by major hurricanes and river flooding, which can destroy thousands of homes in a single disaster.

The National Flood Insurance Program (NFIP) was established in 1968 to provide flood insurance to homeowners, renters, and business owners in participating communities through collaboration between the federal government and private property insurance companies. The NFIP allows flood risks to be pooled on a nationwide basis so that the fund can theoretically absorb losses from periodic regional storms. The NFIP's founding goals were to identify flood risks, set minimum national building standards in flood zones and encourage communities to exceed those standards, and provide flood insurance.

The NFIP has accumulated about $24 billion in debt to the U.S. Treasury. Those funds were used to pay off insurance claims from catastrophic storms and floods over the past decade. Insurance premiums paid by property owners in flood-prone areas are not expected to be enough to cover both future insurance claims and retire the NFIP's debt. Additionally, with rising sea levels and the likelihood of costlier storms, insurance premiums will continue to be insufficient to cover losses, and the NFIP's debt may rise further without reforms to the program.

However, raising flood insurance premiums too much too quickly could prompt homeowners and businesses to cancel their flood insurance policies or even relocate to other parts of the country. In an effort to make the NFIP more financially stable, Congress passed in 2012 the Biggert-Waters Flood Insurance Reform Act, which substantially cut subsidies on flood insurance that had been provided to some property owners. Congress later delayed some premium increases after concerns were voiced by policyholders. The law authorizing the NFIP will expire Sept. 30, 2017, after which Congress must renew the program or risk flood insurance policy lapses.

Costliest U.S. Storms*

Hurricane Katrina	Aug. 2005	$16.3 billion
SuperStorm Sandy	Oct. 2012	$8.25 billion
Hurricane Ike	Sept. 2008	$2.67 billion
Hurricane Ivan	Sept. 2004	$1.61 billion
Hurricane Irene	Aug. 2011	$1.34 billion

*NFIP payouts
Source: FEMA

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CASUALTY BRIEFS

- **Janet Duncan** and **Lisa Slotznick** joined the Opinion Seminar Subcommittee.
- **Anthony Bierke** joined the Flood Insurance Work Group.

CPC Presents on Predictive Modeling at NAIC Insurance Summit

IN RESPONSE TO A REQUEST by state regulators and in an effort to share an actuarial perspective, the Casualty Practice Council presented a full-day program on [predictive modeling] at the NAIC's [Insurance Summit] on May 25 in Kansas City, Mo.

The five presentations, coordinated by Roosevelt Mosley, chairperson of the Automobile Insurance Committee, covered seven basic questions:

- What is predictive modeling?
- Where does predictive modeling occur?
- Who does predictive modeling?
- Why is predictive modeling done?
- When does predictive modeling happen?
- How is predictive modeling done?
- How much predictive modeling is enough?


Rob Curry (left) and Roosevelt Mosley give a presentation on data sources

They also covered the process of developing predictive models, data sources, considerations for insurance companies in developing rate filings, and regulatory concerns about Big Data and predictive modeling. The program concluded with a public policy discussion led by Senior Casualty Fellow Jim MacGinnitie.

"The balanced and informative manner with which the presentations were provided will undoubtedly help our various jurisdictions develop best practices for regulatory review of rate filings that make use of complex predictive models," said Michael McKenney, actuarial supervisor in the Pennsylvania Insurance Department's property and casualty bureau, who chairs NAIC's Casualty Actuarial and Statistical Task Force.

CPC Comments on Proposed ASOP on Future Costs for P/C Risk Transfer and Funding

THE CPC SUBMITTED A comment letter on the ASB's third exposure of the proposed ASOP, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding*.

The letter states the proposed ASOP provides sufficient and appropriate guidance to actuaries estimating future costs for prospective property/casualty risk transfer and risk funding, but cites one area, in Section 3.2, that as written does not appear to recognize the instance where elements of the future cost estimate have different intended measures, while other sections do. It offers suggested changes to the wording and states that the scope of the ASOP as presented is clear.

Save the Date: P/C Opinion Seminar to be Held in Dec. 7–8 in Chicago

THE ACADEMY'S 2017 "Seminar on Effective P/C Loss Reserve Opinions" will be held Dec. 7–8 in Chicago. Do you prepare or sign statements of actuarial opinion on P/C loss reserves for NAIC Annual Statements, or assist with preparing them? This two-day seminar will deepen your expertise on the latest regulations and standards, with reviews of actuarial qualification standards and interactive case studies, and offer a chance to earn continuing education credit. Nearly 80 actuaries attended last year's seminar. Registration will open next month.

Health News

Issue Brief Looks at Risk Adjustment Implications of Health Policy Changes

THE RISK SHARING Subcommittee published an issue brief May 10 on the risk adjustment program implemented under the Affordable Care Act (ACA) and the implications for the program under different potential changes to current health insurance market rules.

ACA risk adjustment shifts funds from insurers with relatively healthy enrollee populations to those with less healthy enrollees. The model and formulas used to determine those payments would need to be revised under various health policy proposals, including the American Health Care Act, which was passed by the U.S. House of Representatives on May 4.

"Risk adjustment plays an important stabilizing function in the individual and small group markets, leveling out the differences in risk among enrolled populations through payments to and from insurers," said Academy Senior Health Fellow Cori Uccello.

"The risk adjustment program reduces incentives for insurers to avoid enrolling people at risk of high health spending, thereby supporting the ACA's protections for people with pre-existing conditions. But some changes in market rules would make it more difficult for the risk adjustment program to operate as intended," Uccello said.

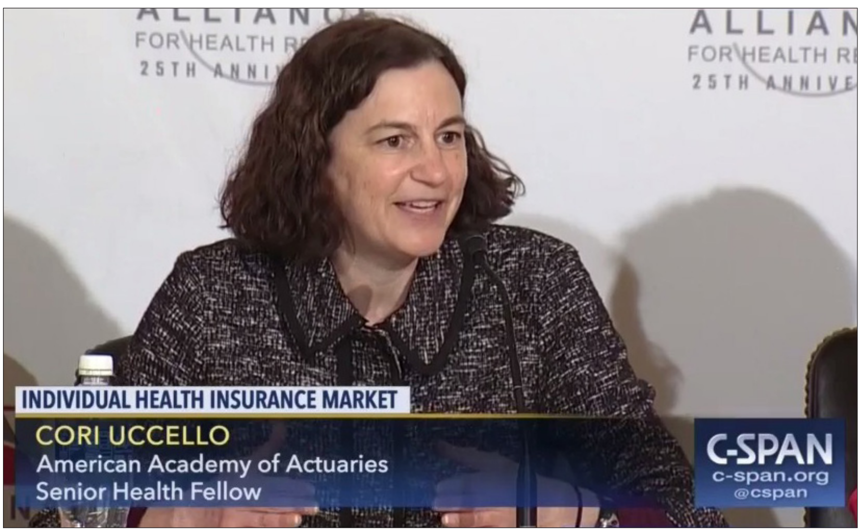
Risk adjustment helps ensure that plans are adequately compensated for the risks they enroll, thereby reducing insurer incentives to avoid high-cost enrollees, the issue brief states. Depending on the particular change, modifying the health insurance market rules implemented under the ACA could require adjustments to the ACA risk adjustment program or could greatly complicate its design and effectiveness.

"Some changes, such as incorporating high-risk pooling and increased flexibility in cost-sharing requirements, could require only adjustments to the risk adjustment design," the issue brief notes. "Other changes, such as loosening or eliminating the [essential health benefit] requirements and allowing sales across state lines, could greatly complicate the design and effectiveness of a risk adjustment mechanism. If states have flexibility in setting benefit and rating rules, the risk adjustment models and payment transfer factors may need to vary by state."

Uccello Speaks at Capitol Hill Health Forum on Individual Insurance Market

ACADEMY SENIOR HEALTH FELLOW Cori Uccello participated in a May 5 Capitol Hill forum hosted by the Alliance for Health Reform on the individual health insurance market. The forum, which aired live on *C-SPAN*, followed by one day the U.S. House of Representatives' passage of the American Health Care Act.

Uccello, whose introductory remarks begin at the 30-minute mark of the *C-SPAN* broadcast, talked about the importance of a sustainable market and having enough enrollees to make a balanced risk pool, a stable regulatory environment that facilitates fair competition, having enough insurers participating to allow competition and consumer choice, and the ability to control health care spending and improve quality care.



HPC Comments to Senate

Related, the Health Practice Council sent comments May 23 to the Senate Finance Committee on improving the individual health insurance market and changing the approach to Medicaid funding.

To improve individual health insurance market stability and sustainability, the letter states, actions that need to be taken to reduce legislative and regulatory uncertainty and to improve market stability include continued funding of cost-sharing reduction reimbursements.

"For actuaries to assess premium requirements, they need to know whether those reimbursements will be funded or if those benefits would continue," the letter states.

Modifying the federal funding structure of the Medicaid program from one based on a percentage of total program expenditures to one that caps or limits federal funding to states requires decisions in five key areas, and how those are designed would impact the stability and long-term viability of the program, the HPC wrote.

Call for Volunteers—Academy Seeks Pooled Health Plan Data

SECTION 3.7.7(B) OF THE REVISED ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions,* calls for consideration of age-specific costs within a pooled health plan. One large pooled health plan, CalPERS, has made its age-specific cost data publicly available—a link to this data is on the Academy website. The Academy is interested in working with other pooled fund administrators to make similar data publicly available to actuaries.

If you are a health actuary who has worked with or has contacts at large pooled health funds across the country and can assist in the Academy's goal to make contact with large pooled fund administrators, we want to hear from you. If you can help or need additional information, please contact Heather Jerbi, assistant director of public policy, at jerbi@actuary.org.

Subgroup Submits Comments on 2018 URRT Instructions

THE PREMIUM REVIEW Subgroup submitted comments to the Center for Consumer Information and Insurance Oversight on the final 2018 unified rate review template (URRT) instructions.

The subgroup confirmed that the new total premium input in Section IV of Worksheet 2 of the URRT does *not* reflect the impact of quarterly trend in the small group market, consistent with the comparison to total premium illustrated on Worksheet 1.

The letter addressed inclusion of the high-cost enrollee risk pooling portion of the Permanent Risk Adjustment Program; consumer adjusted premium rate and tobacco rating; and experience and projection period total allowed claims on Worksheet 2 of the URRT.

Work Group Sends Comments on Stop-Loss Calibration of Risk Factors

THE STOP-LOSS WORK GROUP sent comments to the NAIC's Capital Adequacy (E) Task Force concerning calibration of risk factors in the *Stop-Loss Factors Report*.

The letter responds to comments by America's Health Insurance Plans to the NAIC in March, and re-emphasized two points in the stop-loss report, including that it makes a convincing demonstration that the smaller the block of business, the more variable the block's results; suggesting tiered factors varying by premium volume are more appropriate than today's flat factor; and that there is added volatility not captured in the data due to the unlimited annual and lifetime maximums now required by the Affordable Care Act.

HEALTH BRIEFS

➥ **Melissa Fredericks** joined the LTC Reform Subcommittee.

LIFE NEWS

Work Group Comments to NAIC on VM-20

THE LIFE RESERVES WORK GROUP (LRWG) submitted comments on two NAIC Life Actuarial Task Force (LATF) proposed amendments to VM-20—one comment letter on additional definitions and another comment letter on proposed changes to Section 2.G.

The LRWG recommends removing the added wording on model segmentation and the proposed alternative guidance note from the amendment proposal form—the work group also submitted an amendment proposal form to LATF regarding the VM-20 wording on modeling of policy loans and separate account assets.

The Section 2.G comment letter notes that current VM-20 wording is somewhat confusing on the treatment of policy loans and separate account (SA) assets. The work group's proposal also tightens up the current wording of the SA transfer cash flows in Section 4.A.4.b, and adds clarifying wording to the calculation of the deterministic reserve in Section 4.A and the list of items in starting assets in Section 7.D.

Operational Risk Work Group Comments on RBC

THE OPERATIONAL RISK Work Group [submitted comments](#) to the NAIC's Operational Risk (E) Subgroup on the Life Risk-Based Capital (RBC) operational risk factor.

The work group cited its concerns about an "add-on" approach, should the basic operational risk (OR) charge ever increase to a level where the basic charge (currently exposed at 3 percent) becomes anything other than a floor.

"The current Life RBC formula contains a proxy-based OR charge (the C-4 Business Risk) and we have seen no rationale for changing from this proxy-based charge to an add-on approach," the work group wrote.

LIFE BRIEFS

- **Jim Weaver** joined the Tax Work Group.
- **Terri Foster** and **Lyle Semchyshyn** joined the Annuity Reserves Work Group.
- **Martin Snow** joined the Model Governance Work Group.
- **Larry Bruning** joined the PBR Intensive Seminar Subgroup.

PENSION NEWS

Committee Releases Issue Brief on Women and Social Security

THE SOCIAL SECURITY COMMITTEE released an [issue brief](#) on May 12, just before Mother's Day weekend, that discusses differences in the factors affecting men and women that contribute to disparate benefits under Social Security.

"Financial security is a great way to honor all women, including mothers," [said Janet Barr](#), a co-author of the issue brief. "Ensuring that the dialogue around Social Security reform accounts for the facts about women's benefits and the much-changed place of women in society since the program originated is a great place to start."

The issue brief notes that while Social Security provides benefits on a gender-neutral basis, "gender-related differences in the American work culture mean that, in reality, Social Security provides different levels of retirement security for women and men." It concludes by exploring various reform proposals and the potential impact they may have on women.

The issue brief highlights key aspects of the program, including:

- Social Security's rules are gender-neutral, but on average, some of the program's features affect women differently because the average woman's work history is not the same as that of the average man. Women tend to have more frequent breaks in employment due to child-bearing, child care, or caring for elderly parents or relatives.
- Women on average receive lower Social Security benefits than men with the same number of years of covered earnings due to differences in earnings between men and women. In 2012, the median covered wage reported to the Social Security Administration for all workers was $31,205 for men and $21,914 for women.
- Women's longer lifetimes make Social Security benefits a more significant component of their retirement security. The average life expectancy at age 65 is 18.1 years for males and 20.6 years for females. About 23 percent of women age 62 and older (but only about 18 percent of similarly aged men) depend on Social Security for 90 percent or more of their family income.

Pension Committee Submits Comments to ASB on *Setting Assumptions* ASOP Draft

THE PENSION COMMITTEE submitted a [comment letter](#) to the Actuarial Standards Board on the proposed actuarial standard of practice (ASOP), *Setting Assumptions*.

The letter notes that retirement plan actuaries are already subject to strict guidelines regarding the setting of assumptions, including ASOP Nos. 4, 6, 27, and 35, which include detailed and rigorous guidance on the selection and assessment of reasonable assumptions and methods.

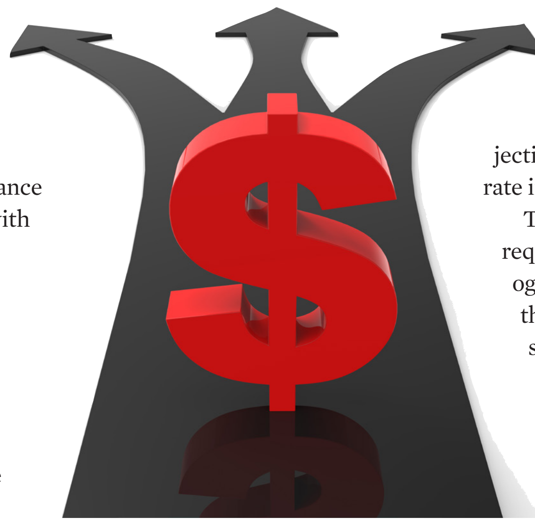
"We do not believe there is any guidance in the proposed ASOP that directly conflicts with the guidance in these pension-specific ASOPs," the letter states. "Accordingly, while we believe that this proposed ASOP may strengthen actuarial practice for other practice areas, we do not expect it to substantially change the scope of U.S. pension practice."

Committee Comments to IRS and Treasury on Projection of Cash Benefits

THE PENSION COMMITTEE submitted a comment letter to the IRS and the Treasury Department on the projection of benefits under cash balance plans with variable interest credits.

The letter states that additional guidance is needed, and that cash balance plans with variable interest credits cannot be sure they are operating in compliance with all legal requirements without guidance that provides a workable approach to projecting benefits.

The comments cover accrual rules, setting a projection rate, and a recommended projection rate. "We believe the starting point for setting a projection



rate should be a reasonable assumption or reasonable range of assumptions based on future expectations," the letter states. "Ideally, the assumed rate would be used for projecting interest credits, regardless of the actual rate in the year of the test."

The letter concludes that "the IRS could require plan sponsors to include a methodology for determining the projection rate in the plan document and require plan sponsors to provide the rationale for the reasonableness of the rate in determination letter filings or upon audit. Having the rate (or the basis) defined in the plan document would ensure benefits are definitely determinable."

Risk Management & Financial Reporting News

Life Reinsurance Practice Note Released; Webinar Set for June 26

THE REINSURANCE Committee's Credit for Reinsurance Subgroup released a draft practice note for exposure, *Credit for Life Reinsurance in U.S. Statutory Financial Statements*. The exposed practice note reviews changes that have occurred since its prior version, including the impact on reinsurance of the Dodd-Frank financial reform law, the adoption of the NAIC's Valuation Manual, and other key laws and regulations. Comments are due by July 7; read the Academy alert.

The Academy will host a webinar on Monday, June 26, from noon to 1 p.m. EDT for an in-depth review of the practice note. Attendees will learn about current and emerging practices used to determine the credit for reinsurance that may be taken on statutory financial statements, and will gain background for commenting on the draft. Register today.

Speakers will expand upon the exposure's review of changes that have occurred since the prior version of the practice note. These changes also include the covered agreement on prudential insurance matters between the United States and the EU as exposed on Jan. 13, 2017; Credit for Reinsurance Model Law and Regulation changes; regulations covering captive reinsurance structures (i.e., AG XLVIII and Reserve Financing Model Regulation); changes to Statement of Statutory Accounting Principles 61R; and updated answers to questions from the prior draft of the practice note.

ERM/ORSA Committee Submits Comments to ASB on *Setting Assumptions* Exposure Draft

THE ERM/ORSA COMMITTEE submitted comments to the ASB on its *Setting Assumptions* exposure draft. The letter addresses a series of questions posted in the draft actuarial standard of practice (ASOP), and states the ASOP could refer to the proposed ASOP on modeling for a definition of modeling once that ASOP is approved.

The proposed ASOP is clear on how to handle conflicts with practice-specific ASOPs, the letter states, and the committee suggested this ASOP be the governing standard for setting assumptions, and that the ASB needs to clarify which ASOP has precedence when application of this standard overlaps with other ASOPs. It also offers several clarifying suggestions for Section 3 of the proposed ASOP, analysis of issues and recommended practices.

Solvency Committee Comments to IAIS

THE SOLVENCY COMMITTEE submitted comments to the International Association of Insurance Supervisors on the revised Insurance Core Principles (ICPs) and ComFrame material integrated with the ICPs public consultation package dated March 3.

The comments are limited to *ICP 8 Risk Management and Internal Controls*, focusing on the definitions of the risk management and actuarial functions.

"These definitions should be explicitly permissive rather than prescriptive in nature, given the substantial overlap in expertise and experience between these two functions," the letter states. "Such an approach would allow for better alignment with the currently defined roles of the appointed actuary and the risk management function under U.S. insurance law and regulation. Moreover, for groups of lesser complexity, proportionality should be considered."

Solvency Committee Comments on NAIC Memo on RBC Practices

THE SOLVENCY COMMITTEE sent comments May 26 to the NAIC on the *NAIC Staff Memo—U.S. Insurers that Do Not File RBC and Prescribed/Permitted Practices*, which was exposed by NAIC's Group Capital Calculation (E) Working Group in March on risk-based capital (RBC) requirements.

The committee wrote it was "difficult to provide meaningful feedback on the proposed group capital calculation, or any related adjustments, without a clearer understanding of the regulatory purpose and intended uses of the calculation."

It posed several questions, such as whether the intent is to identify weakly capitalized groups, and whether the NAIC wants to provide a more transparent view of the sources of available and required capital. "The regulatory purpose and goals will inform the development of the calculation itself, as well as the associated regulatory actions and priorities," the committee wrote.

It noted that the adjustments outlined in the memo appear to be intended to promote the consistency and comparability of the calculation across insurer groups, and said its comments reflect that assumed intention.

"We support the objective of achieving consistency and comparability in the calculation," the committee wrote, and "generally support the adjustments proposed for U.S. non-RBC filers for which there is no formula, U.S. captive insurance companies, and prescribed/permitted practices."

RISK MANAGEMENT BRIEFS

Derek Farmer joined the Financial Reporting Committee.

Task Force Comments on Financial CHOICE Act; Recommends an Office of the Actuary

THE FINANCIAL Regulatory Task Force sent comments to U.S. House of Representatives leadership May 19 on H.R. 10, the Financial CHOICE Act of 2017. The comments noted that if Congress chooses to establish an Office of the Independent Insurance Advocate (OIIA), that office should include an Office of the Actuary.

"Without this important function, the OIIA would be disadvantaged in effectively fulfilling its mission," the letter states. "The actuarial role in regulation and oversight of insurance is a long-established and effective one, employed in U.S. state-based oversight and regulation, as a part of international insurance supervision, and in the management of many national financial security programs."

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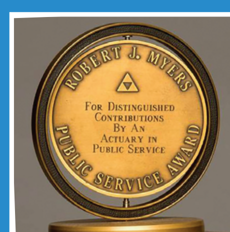

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