



Academy Confers With SEC, PCAOB

THE ACADEMY'S FINANCIAL REPORTING COMMITTEE worked a double-header on June 23, meeting in the morning with the Securities and Exchange Commission (SEC) and in the afternoon with the Public Company Accounting Oversight Board (PCAOB).

Over the course of a two-hour meeting with several members of the SEC's Office of the Chief Accountant — including Deputy Chief Accountant Scott Taub — Academy representatives discussed a variety of issues. Nancy Watkins, who is chairperson of the Academy's Committee on Property and Liability Financial Reporting, provided an overview of various risk transfer initiatives underway at the National Association of Insurance Commissioners (NAIC), at the New York Insurance Department, and at the Financial Accounting Standards Board. Watkins highlighted the work of the Academy's Risk Transfer Subgroup in assisting or responding to those initiatives.

Committee Chairperson Ralph Blanchard voiced Academy concerns with the SEC's contractual obligations table required in management's discussion and analysis



Standing from left, Ralph Blanchard, Henry Siegel, Bill Sohn, Ethan Sonnichsen, Burt Jay, and Errol Cramer. Seated, Nancy Watkins and Darrell Knapp.

disclosures. SEC staff said they believe that the table serves its intended purpose and encouraged companies to provide additional disclosures around any numbers in the table that might be misleading. Blanchard also discussed the uncertainty in determining loss reserve estimates and the ongoing work of the Actuarial Standards Board to develop a standard for P&C loss reserve estimation.

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Proof of Membership

An online service for Academy members filing Medicare Part D attestation. **PAGE 2**

Standard Action

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Pension Distribution

Ken Kent testifies before the ERISA Advisory Council. **PAGE 7**

Annual Meeting

The Academy will be saluting the contributions of its volunteers. **PAGE 8**

Technology Alters Loss Forecasting

BY RADE MUSULIN

IN 1993, THE YEAR after Hurricane Andrew struck south Florida, the state's property insurance market was in serious disarray: 11 companies insolvent and many others with crippling financial losses, hundreds of thousands

of non-renewed policies, and a rate deficiency that would eventually require doubling the average rate despite the formation of a large public reinsurer with billions of dollars of inexpensive capacity. In 2005, despite Andrew-sized losses from the combination of four hurricanes in the previous year and forecasts of an active season, the Florida market has experienced significantly less disruption than in the aftermath of Hurricane Andrew.

The insurance system's improved response in 2005 is the result of a decade of hard work by many stakeholders, including insurers, regulators, and the Florida legislature. A critical, and often underappreciated, factor is the quantum leap in the sophistication and accuracy of loss forecasting capabilities through the development of catastrophe models

See **LOSS FORECASTING**, Page 6



ISTOCKPHOTO

Actuarial UPDATE

AUGUST

- 3 Academy Executive Committee meeting, Washington
- 10 ASB Casualty Committee meeting, Chicago
- 11-13 Actuarial Research Conference (Academy, ASPPA, CIA, CAS, CONAC, SOA), Mexico City
- 12 Academy Universal Life Work Group meeting, Chicago
- 17 ASB General Committee meeting, Chicago
- 24 SOA basic GAAP seminar, New York
- 25-26 SOA advanced GAAP seminar, New York
- 31-September 1 ASB meeting, Washington

SEPTEMBER

- 5-7 IAA ASTIN colloquium, Zurich, Switzerland
- 7 Academy Life Practice Council meeting, New Orleans
- 7-9 IAA AFIR colloquium, Zurich, Switzerland
- 10-13 NAIC fall meeting, New Orleans
- 12-13 Casualty loss reserve seminar (Academy, CAS, CCA), Boston
- 12-13 ASPPA Central and Mountain States Benefits Conference, Denver
- 12-13 SOA critical illness insurance conference, Baltimore
- 13-14 CAS seminar on ALM and principles of finance, Boston
- 14 Academy COPLFR meeting, Boston
- 14 Academy Life Financial Reporting Committee meeting, Chicago
- 16 Academy Universal Life Work Group meeting, Chicago
- 19-20 SOA health insurance underwriting seminar, Chicago
- 19-20 CAS seminar on predictive modeling, Chicago
- 20-21 SOA taxation of life insurance companies seminar, Orlando, Fla.
- 22-23 Valuation actuary symposium (Academy, SOA), Orlando, Fla.
- 22-23 CAS appointed actuary seminar, Montreal
- 26 CAS seminar on reinsurance, New York
- 27 Academy Council on Professionalism meeting, Washington
- 29-October 2 North American Actuarial Council meeting, Miami

OCTOBER

- 6-7 SOA equity-based guarantees seminar, New York
- 9 Academy Board of Directors meeting, Washington
- 10-11 Academy annual meeting, Washington
- 16-21 IAIS annual meeting, Vienna, Austria
- 19 Academy loss reserve opinion seminar, Chicago
- 30-November 2 CCA annual meeting, Asheville, N.C.

NOVEMBER

- 6 Academy Pension Practice Council meeting, Portland, Ore.

WEB INTERFACE

Links to documents underlined in blue are included in the online version of this issue at www.actuary.org/update/index.htm.

Academy NEWS Briefs

New Academy Membership Verification System

THE ACADEMY and the Centers for Medicare and Medicaid Services (CMS) have developed an online, user-friendly, opt-in process to verify Academy membership for actuaries filing an attestation of actuarial equivalence for the retiree drug subsidy (RDS) option offered under the new Medicare Part D program.

Membership in the Academy is a legal requirement for actuaries filing an attestation.

For membership verification, go to www.beta.actuary.org/cvweb/attest.shtml where you can sign in to a secure, individual web page. The page will display your Academy membership ID

number, which you can then provide to your plan sponsor. You will have to click an "opt-in" button to participate in the verification process. By opting in, you give the Academy permission to send membership information to the RDS program for the sole purpose of verifying your membership in the Academy. Only members who opt in will have their membership information sent to the RDS program.

Questions? Send a message to Mark Paster, the Academy's assistant director for technology, at paster@actuary.org. For more information about the RDS program, go to its website at www.rds.cms.hhs.gov/contact or call the RDS help line at 877-737-4357. ▲

CASUALTY NEWS



The Committee on Property and Liability Financial Reporting sent a

June 24 [letter](#) to the NAIC recommending that it move slowly and deliberately on a proposal to change statutory accounting principles on property and casualty reinsurance so that accounting for some reinsurance transactions is split into two parts.

► **Kevin Bingham**, chairperson of the Medical Malpractice Subcommittee and a senior manager with Deloitte Consulting in Hartford, Conn., represented the Academy in a July 11 Washington roundtable discussion on medical malpractice that was sponsored by the Alliance for Health Reform.

► Joining the Mass Torts Subcommittee are **Steven Math**, vice president and chief actuary for Argonaut Group Inc. in San Antonio, Texas; **Steven Symon**, a principal with Mercer Oliver Wyman in New York; and **Trevor Withers**, a consultant with Towers Perrin in St. Louis.

► **Brian Alvers**, an actuary with Aon Re Services in Chicago, has joined the Medical Malpractice Subcommittee.

HEALTH NEWS



Michael Frings, supervising actuary, long-term care insurance division, for Genworth Financial in

Richmond, Va., has joined the Medicare Supplement Work Group.

LIFE NEWS



Joining the Universal Life Work Group are **Dale**

Hall, chief actuary, life/health operations, for Country Insurance and Financial Services in Bloomington, Ill., and **Peter Marion**, director, taxes, for Sun Life of Canada in Wellesley, Mass. Marion is the co-chairperson of the new Tax Advisory Subgroup, along with **Armand de Palo**, executive vice president and chief actuary for Guardian Life Insurance Co. in New York

► **Shawn Loftus**, executive di-

rector ALM at USAA Life Insurance Co. in San Antonio, Texas, has joined the Standard Valuation Law 2 Work Group.

PENSION NEWS



Academy Senior Pension Fellow **Ron Gebhardt-bauer** and **Noel**

Abkemeier, chairperson of the Academy's Nonforfeiture Improvement Work Group and a consulting actuary at Milliman in Williamsburg, Va., met June 27 with the chief economist of the congressional Joint Economic Committee to discuss longevity indexing as a means of bringing Social Security back into balance. Gebhardt-bauer also spoke on U.S. Social Security reform at a June 22-24 conference in San Jose, Costa Rica, sponsored by the Comisión Americana de Actuarios y Financistas and the Conferencia Interamericana de Seguridad Social.

► **Bill Sohn**, an actuary with Mellon Human Resources & Investor Solutions in New York, is the new chairperson

of the Committee on Pension Accounting, replacing Mark Beilke who died suddenly on May 1. Sohn was formerly the vice chairperson.

► **Eli Greenblum**, vice president and actuary with the Segal Co. in Washington, has joined the Pension Committee.

IN THE NEWS

A June 23 *New York Times* article on the Financial Accounting Standards Board's push to overhaul pension auditing quoted **Ron Gebhardt**, the Academy's senior pension fellow. Gebhardt was also quoted in a June 19 *Los Angeles Times* column and a July 3 *San Francisco Chronicle* article on the Pension Protection Act, sponsored by Rep. John Boehner (R-Ohio).

► A July 3 *Atlanta Journal-Constitution* article on working past the age of 65 quoted Bruce Schobel, chairperson of the Academy's Retirement Security Principles Task Force and vice president and actuary with New York Life Insurance Co.

► In coverage of the NAIC summer meeting in Boston, the *National Underwriter* ran articles about the Academy's **C-3 Phase 2** risk-based capital project and about Health Practice Council issue briefs on the 2005 **Medicare** Trustees Report and on **disease management** programs. A special report on reinsurance in the July issue of *Risk & Insurance* referred to the Academy's survey of current risk transfer evaluation practices for the NAIC.

► A column on waiving pension rights in the July 3 *San Diego, Calif., Union-Tribune*, referred to the Academy's Pension Assistance List (**PAL**) program.

► An item on the iVillage.com website on how insurance companies determine rates pointed readers to the Academy's **website** for infor-

mation about actuaries and what they do.

ON THE MOVE

Scott Berlin was promoted to senior vice president in charge of the individual life department at New York Life Insurance Co. in New York. He most recently served as vice president responsible for advanced market products.

► **David Cohn** is a senior consultant with Sullivan, Cotter and Associates in Atlanta. He was formerly with Mellon Human Resources and Investor Solutions in Atlanta.

► **Anthony Cavalier** is a manager with Pricewaterhouse Coopers in Newark, N.J. He was formerly a vice president with Palm Actuarial Consultants in Sewell, N.J.

► **William Leung** is a senior actuary with Beneficial Life Insurance Co. in Salt Lake City. He was formerly an associate actuary with Canada Life Assurance Co. in Atlanta.

► **Charles Moes** is chief financial officer with Banco Estado Corredora de Seguros in Santiago, Chile. He was formerly a vice president and actuary with

MetLife Chile.

► **Scott Hallworth** is vice president and lead actuary with Allmerica Financial in Worcester, Mass. He was formerly vice president for MetLife Auto & Home in Warwick, R.I.

► **Elizabeth Todaro** is a consulting actuary with Watson Wyatt Insurance & Financial Services in Berwyn, Pa. She was formerly an actuary at Aegon USA in Frazer, Pa.

► **Patrick Landry** is vice president and consulting actuary with Prudential Financial in Hartford, Conn. He was a former principal with Mercer Human Resources Consulting in Los Angeles.

► **Gregg Anderson** is assistant vice president for Conseco Insurance Cos. in Carmel, Ind. He was formerly an investment actuary with Bankers Life and Casualty Co. in Chicago.

► **Herbert Desson** is an actuary with Global Actuarial Consulting in Bangkok, Thailand. He was formerly an actuary with Jardine Lloyd Thompson Risk Solutions in London.

► **Mark Billingsley** is executive vice president and chief actuary for the Ceres Group in Mission,

Kan. He was formerly senior vice president and chief actuary for United Teacher Associates Insurance Co. in Austin, Texas.

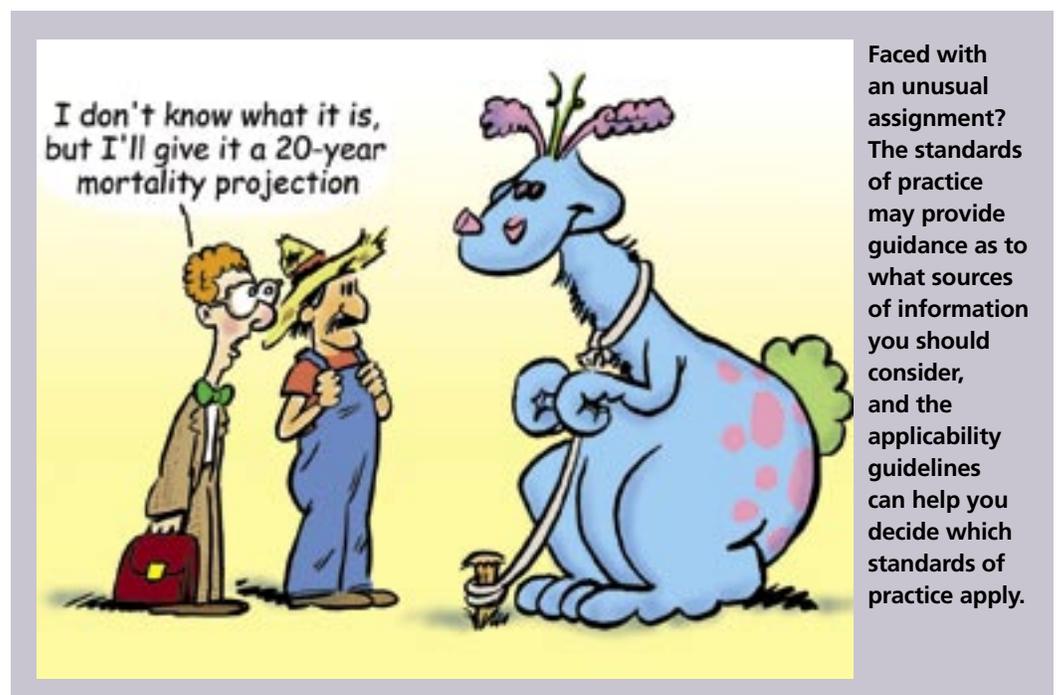
► **Leslie Korper** is the lead application developer for Lincoln National Life Insurance Co. in Hartford, Conn. He was formerly a consulting actuary with Headway Technology Resources in Windsor, Conn.

► **Daniel Greer** is a senior market research analyst with GE Insurance Solutions in Kansas City, Mo. He was formerly actuarial director for Fireman's Fund Insurance Cos.

► **Beth Christy** is director of reinsurance for M Financial Group in Portland, Ore. She was formerly a product actuary for ING Re in Denver.

► **Camilo Salazar** has been named executive vice president for distribution, marketing, and product management for Pan-American Life Insurance Co. in New Orleans. He was formerly a senior consultant for Milliman in Denver.

► **William Biegaj** has been named vice president and actuary for Folksamerica Re Solutions Ltd. in Simsbury, Conn. He was formerly actuary. ▲



Faced with an unusual assignment? The standards of practice may provide guidance as to what sources of information you should consider, and the applicability guidelines can help you decide which standards of practice apply.



Discussion Paper on Disclosure

THE CODE OF PROFESSIONAL CONDUCT requires actuaries to disclose all pertinent information in a variety of situations, such as when they face potential conflicts of interest, when they decide to deviate from the requirements of a particular standard of practice, or when they have reason to believe that their intended audiences don't understand their work products.

But what does that mean in a practical sense?

A new discussion paper prepared by the Joint Committee on the Code of Professional Conduct goes a significant

way toward addressing those thorny situations. The recently published **paper**, available on the Academy's website, suggests considerations that actuaries may choose to take into account when applying the code to disclosures in certain actuarial practice situations. The paper is also designed to instruct interested parties on the actuarial profession's approach to disclosure.

Moving sequentially through the code, the paper progresses—as does the code—from more general to more specific situations. Topics include disclosure as an element of an actuary's responsibility under the code to avoid intentionally producing

results that mislead the public, the disclosure of sources of compensation for services that are rendered, and instances when disclosure is specifically prohibited—for instance, with regard to confidential information.

Members of U.S. actuarial organizations are encouraged to share comments on the paper with the joint committee. Comments may be sent to paper@actuary.org. Ken Kent, the Academy's vice president for pension issues, is chairperson of the joint committee. Other members are Paul Braithwaite (president-elect of the Casualty Actuarial Society) Morris Chambers, Ruth Frew, Sam Gutterman, and Luis Huerta. ▲

ASB Adopts Two Revised Standards

AT ITS JUNE MEETING, the Actuarial Standards Board (ASB) adopted final revised versions of the following standards: ASOP No. 11, *Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance*, and ASOP No. 19, *Appraisals of Casualty, Health, and Life Insurance Businesses*.

ASOP No. 11 applies to actuaries who perform professional services in

connection with preparing, reviewing, or analyzing financial statement items that reflect reinsurance ceded or reinsurance assumed on life insurance (including annuities) or health insurance. It becomes effective for actuarial services performed in connection with financial statements for periods beginning on or after Jan. 1, 2006.

ASOP No. 19 applies to actuaries when performing professional services with

respect to appraisals of casualty, health, and life insurance businesses (such as insurance companies or HMOs), collections of policies or contracts in-force that cover insurance risk, or distribution systems that sell such policies or contracts. It becomes effective on Nov. 1, 2005.

The ASB also approved a proposal from the Casualty Actuarial Society (CAS) to revise *ASOP No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Reserves*. The ASB doesn't anticipate making an extensive revision of the standard, aside from strengthening the disclosure section. The CAS proposal recommended that the standard's disclosure section be revised in order to require that the actuary identify differences, if any, that exist between management's "best estimate" of the loss and loss adjustment expense reserves as of a valuation date and the actuary's "best estimate" of the reserve need as of that valuation date within the statement of actuarial opinion. The CAS also recommended that the disclosure section require the actuary to summarize changes in the actuary's estimates from one period to the next, including discussion of significant factors underlying the changes.

The ASB will hold its next meeting Aug. 31-Sept. 1 in Washington.

—CAREN CLARK

ORDER NOW!

C-3 Phase 2 RBC and Reserves Virtual Seminar

If you missed the Academy's second C-3 Phase 2 Seminar, held May 4-5, you now have the opportunity to see and hear all of the presentations on a specially prepared virtual seminar CD-ROM.

Major topic areas covered in the seminar include:

- Overview of changes since first seminar
- Calibration, scenario generation, use of integrated interest and return models
- Deterministic assumptions
- Practical aspects of compliance
- Transition to a principle-based system
- Incorporating hedging into projections

The C-3 Phase 2 virtual seminar CD-ROM contains all of the presentations from the nine speakers at the two-day seminar, conveniently packaged and attractively priced at only \$499.00 per copy. There is a 10 percent discount when ordering five or more copies!

Order your C-3 Phase 2 virtual seminar CD-ROM online at www.conferencerecordings.com.

NEW MEMBERS

In the first half of 2005, the Academy added 225 new members to its rolls. By joining, they have demonstrated a commitment to ethical and responsible actuarial conduct and an interest in keeping up with the issues and events that are shaping their profession. They are in good company.

Ryan Aamodt	Daniel Gutierrez	Salim Manzar	Clyde Nix	Thomas Schmidt	Salvador Timog
Steven Abbs	Dale Hall	Andrew Martin	James Norman	Rick Schnurr	Nakar
Karen Adams	Donald Harrington	Raul Martin	John O'Boyle	Michael Scholten	Trisha Trembl
Stephanie Adelhardt	Robert Harrington	Jiemin Math	Nicholas O'Kulich	Edward Scott	William Turner
John Albrecht	Stuart Harvey	Rebecca Mathis	John Oliver	Carla Seat	Christian Ulmer
Gregory Alperstein	William Held	Jeremy May	Michael Parker	John Seidenstricker	James Voelker
Damon Andres	Karen Hill	James McClure	Brian Patrick	Vishul Shah	Jeremy Waite
Marcy Baker	Susan Hogarth	Michelle McDonald	Kenneth Payne	Takeko Shimotomai	Catherine Wandro
Jennifer Becher	Petya Ivanova	Brent McGill	Brock Peters	Prakash Shimpi	LiLing Wang
David Beer	Jacqueline Jarboe	Kristin McKee	Robert Pickard	Alan Shulman	Kate Warren
Stephen Bell	Tim Jarvis	Amanda McKinney	Matthew Pilkey	Stephen Siepman	James Washer
Jamie Beyer	Xiao Jiang	Arthur McMurrich	Stacy Powell	H. Balvinder Singh	Louis Weintraub
Nebojsa Bojer	Huaying Jin	Thomas Meyer	Deborah Prince	Justin Smith	Brandon Welte
Kelly Brege	Douglas Johnson	Eric Mikulaninec	Taylor Pruisner	Harry Soo	Mengqian Wen
Timothy Burgess	Leslie Joseph	Anne Miller	Richard Rabusic	Mark Spitzer	Chad Wilcox
Douglas Burton	James Juillerat	Brett Miller	Maria Radonova	Michael Spitz	David Woelfel
Amber Butek	Steven Kapper	Ryan Miller	Geetha Raghavan	Mark Sprague	Min Xu
Edith Calvao	John Kaspar	Matthew Mize	Melissa Rawson	Scott Stauffer	Xinxin Xu
Ze Cao	Michael Katz	Mariyam Moonis	Susan Rhatigan	Jo Stephenson	Yan Yang
Ryan Chamberlain	Samuel Keller	Thomas Mosher	Robert Ridge	Mitchell Stephenson	Yiping Yang
Matthew Chamblee	Amy Kim	Ying Mu	Bernard Riley	Gail Stewart	Scott Young
Lusheng Chen	L. Doug King	Gilbert Muz	Rolf Running	James Stinchcomb	Navid Zarinejad
Winnie Chen	Gregory Kissel	Thomas Mylander	Michael Ryan	Brian Strong	Ena Zee
Yonghai Chen	Daniel Klein	Ricardo Nava	Leonard Sarsfield	Ephraim Sudwerts	Trevor Zeimet
Hsiang-Kun Cheng	Matthew Klein	Paul Navratil	Scott Sather	Shams Talib	Luan-Deborah Zhang
Leong Chew	Kathryn Klingler	Luba Neymit	Mark Scanlon	Darrell Tedrow	Ying Zhao
Stephanie Ching	Shannon Kole	Donna Nezames	Jon Schaper	Joseph Thairu	Xiaobo Zhou
Matthew Condos	Aaron Korthas	Lisa Nield	Daniel Schlemmer	Sarah Theis	
Ronald Cozzolino	Alexey Kozmin				
Christopher Cunniff	Julia Kraemer				
Gregory Czar	Neil Kulkarni				
Mark Danburg-Wyld	Sandeep Kumar				
Robert Danesh	Ying Han Lai				
William Dawson	David Lang				
John Deacon	Mark Lange				
Robert DeNio	Eric Lanham				
Gregory Derksen	Linda Lankowski				
Brian Donlan	Craig Lano				
Brian Donohue	Kelly Lappin				
Kevin Dotson	Steve Largent				
Peter Dowd	Mikhail Laskin				
Esther Driessen	Timothy Lavender				
Samuel Eckler	June Lee				
Sandra Ellis	Wendy Lee				
James Eubank	Keri Lehman				
Linda Ezell	Brian Lemele				
Judy Faucett	Gregory Leonberger				
Angelika Feng	Michelle Lerch				
Suzanne Finnegan	Sheva Levy				
Eduardo Fischer	Cuilan Li				
Mary Fitzpatrick	Shuming Liaw				
Michael Fox	Hsiu-An Lin				
Ronald Frank	Edward Lionberger				
Lester Garcia-Casariago	Brody Lipperman				
Mark Geske	Brian Lisi				
Jennifer Greenwell	Gregg Littlefield				
Kevin Grozio	Christopher Lucas				
	Rachna Malhotra				

Last Year the Academy's Life and Health Qualifications Seminar SOLD OUT Early!

This Year, Don't Miss Out—Register Early

Should You Attend?

New FSAs (effective 2000 or later) may not meet all of the life- and health-specific qualification standard requirements to be able to issue Prescribed Statements of Actuarial Opinion. The L&H Seminar can solve that problem. Others can take this opportunity to earn significant PD and CE credit. See the Academy website for more information on the seminar's content, credits, and faculty.

For more information and to register online, go to www.actuary.org, or contact the Academy at 202-223-8196 or winkel@actuary.org.

Nov. 8-11, 2005

Alexandria, Va.

The Early Registration Deadline Is Aug. 12



AMERICAN ACADEMY of ACTUARIES

and their acceptance by actuaries, insurers, investors, and policy-makers.

An understanding of the numbers—such as average annual expected losses, probable maximum loss, or the expected effect of stricter building codes—is a prerequisite for a well-functioning insurance system. Traditionally, actuaries used the “excess wind procedure” to estimate the provision required in rates to cover catastrophe losses. This procedure used 30 years of historical data to estimate the relationship between catastrophic losses and normal losses, and then used that relationship to forecast the expected level of catastrophic losses in the future. Andrew exposed serious problems with this method, leading actuaries to turn to catastrophe models for their forecasts.

There have been some bumps along the way as more sophisticated modeling has taken hold. The abrupt change in tools used to develop loss forecasts and a subsequent communications breakdown among insurers, regulators, the media, and the public on why the change was needed were major contributors to the market disruption in 1993. In 2005, catastrophe models have been a source of stability to the market. Losses from 2004 were within the range of reasonable estimates (albeit at the high end), and insurers who used forecasting tools were far better prepared to cope with the aftermath.

Top 10 Hurricanes and Estimated Insured Loss (adjusted to 2004 dollars)

YEAR	EVENT	INSURED LOSS
1992	Andrew	\$20.8 billion
2004	Charley	7.5 billion
2004	Ivan	7.1 billion
1989	Hugo	6.4 billion
2004	Frances	4.6 billion
2004	Jeanne	3.7 billion
1998	Georges	3.4 billion
1965	Betsy	3.1 billion
1995	Opal	2.6 billion
1999	Floyd	2.2 billion

This information is compiled from the ISO Property Claim Services database on property losses for man-made and natural disasters.

The use of new catastrophe models also significantly changed many actuarial tasks, notably in ratemaking. Because most regulatory paradigms were not designed to assess rates developed by proprietary computer programs using input data that could not be reconciled to financial statements, regulators had to adjust. At the same time, the actuarial profession moved to adapt several Actuarial Standards of Practice (ASOP) that affect the use of models in actuarial practice, notably:

▶ **ASOP No. 23, Data Quality**—Catastrophe models rely on non-financial statement exposure data. Since this data cannot be rec-

onciled to an audited financial statement, great care must be exercised in building the data sets that feed the models.

▶ **ASOP No. 30, Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking**—Catastrophe models allow actuaries to build loss distributions that can be used to estimate the expected variation in losses, which affects the amount of capital required to support a book of business.

▶ **ASOP No. 38, Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)**—Catastrophe models require actuaries to rely on complex computer programs reflecting many scientific disciplines, including geology, meteorology, engineering, and computer science.

▶ **ASOP No. 39, Treatment of Catastrophe Losses in Property/Casualty Ratemaking**—Catastrophe models have necessitated major changes in ratemaking practices, which prompted the Actuarial Standards Board (ASB) to adopt this standard in 2000.

As catastrophe modeling changes, the actuarial profession is keeping pace—embracing new technology to improve the quality of our work product and updating professional standards to provide guidance along the way.

Rade Musulin is chairperson of the Academy’s Communications Review Committee, a member of the Update’s editorial board, and vice president—operations, public affairs, & reinsurance for the Florida Farm Bureau Insurance Cos. in Gainesville, Fla.

ACADEMY SEMINAR FOR APPOINTED ACTUARIES

Effective Loss Reserve Opinions

The Academy is offering a new seminar Oct. 19 in Chicago for actuaries who expect to prepare and/or sign NAIC statements of actuarial opinion on property/casualty loss reserves in 2005.

The one-day seminar, “[Effective Loss Reserve Opinions: Tools for the Appointed Actuary](#),” will focus on regulatory and professionalism concepts, rather than the more fundamental techniques studied by actuarial students. Seminar leaders will discuss governing regulations, applicable standards, new requirements, and what users of the actuarial opinions want. The seminar will also offer pointers on:

- ▶ Accepting an opinion assignment
- ▶ Handling documentation, point estimates, ranges, and management’s best estimate
- ▶ Disclosing risk of material adverse deviation
- ▶ Dealing with difficult situations.

Led by top professionals, including instructors who are company, consulting, and regulatory actuaries, the seminar will feature small class size and a participatory structure to ensure that participants come away with concrete, marketable skills.

The seminar, to be held at the O’Hare Hilton in Chicago, is being offered by the Academy’s Committee on Property/Liability Financial Reporting and the Academy’s Professionalism Council. For more details, contact [Greg Vass \(vass@actuary.org\)](mailto:Greg Vass (vass@actuary.org)), the Academy’s senior policy analyst for casualty issues.

Pension Distribution: What Are the Options?

ON JULY 8, members of the Department of Labor's Advisory Council on Employee Welfare and Pension Benefit Plans met with Ken Kent, the Academy's vice president for pension issues, to discuss pension distribution policy.

Council members were particularly interested in Kent's take on the perceived intrinsic value of lump sums versus annuities. "Some individuals see the large lump sum and assume that they can manage

a structure in which employees would be required to examine all distribution options and certify their choice before receiving their benefits. "For employees to understand their options, they have to be broken down," he said. "You have to talk to them about their financial resources, the impact of Social Security, potential medical costs in retirement, as well as longevity and investment risks."

Several council members expressed



Kent told council members that there are three elements that need to be taken into account when considering the financial security of retirees:

► Protection against investment and longevity risk through pooling resources is an important component of cost management.

► Distribution options need to focus on maintaining protection against investment and longevity risk as a form of insurance.

► There needs to be a balance between DC and more traditional defined benefit (DB) plans.

In final comments, Kent encouraged members of the council to consider the possible impact on retirement plans and retirees of recent legislative proposals that encourage annuitization through various tax incentives. Kent said that any tax incentive structure should target workers at all income levels and incentives should be available for both DB and DC plans in order to maintain a level playing field between the two.

— HEATHER JERBI

For employees to understand their options, you have to talk to them about their financial resources, the impact of Social Security, potential medical costs in retirement, and longevity and investment risks.

those funds better, especially if they feel their retirement plan may not be there in the future," Kent told the council. "What we can demonstrate as equivalent on an actuarial basis may not appear equivalent to an employee."

When asked about how best to communicate to participants the value of an annuity as opposed to a lump sum, Kent suggested that one alternative would be to create

interest in the idea of requiring some recognition of the available options and sought Kent's opinion on how best to structure such a requirement.

Kent's testimony came as the council is examining distribution options in qualified retirement plans, particularly those in defined contribution (DC) plans, and whether those options allow individuals to manage their income in retirement.

SEC & PCAOB, *Continued from Page 1*

Bill Sohn, the new chairperson of the Academy's Pension Accounting Committee, addressed a number of pension issues, including the recent SEC staff report on off-balance-sheet accounting that recommends revising the accounting guidance for defined benefit and other post-retirement benefit plans. The Academy doesn't yet have a position on the report, but Sohn shared some initial insights with the SEC staff. Sohn also discussed factors that have contributed to the overall decline in defined benefit pension plans.

In the afternoon, members of the Financial Reporting Committee met with representatives from the PCAOB, including Chief Auditor Doug Carmichael and Deputy Chief Auditor Tom Ray. Risk transfer and pension issues were the main topics of the meeting. PCAOB staff indicated that they continue to monitor these issues but have yet to consider any possible action. Carmichael said that implementation of internal control provisions mandated by Section 404 of the Sarbanes-Oxley Act has

been the singular focus of the Office of the Chief Auditor for longer than expected, but with new guidance now released, attention will turn to other matters.

On the topic of Sarbanes-Oxley, committee member Darrell Knapp discussed the effort of the NAIC to implement certain provisions of the act for insurers (public and non-public). Carmichael said that the scope of Section 404 wouldn't be interpreted by the PCAOB to include spreadsheets or other individual items used by actuaries. Rather, the PCAOB will be looking at controls in their entirety.

The meeting concluded with a discussion of "use of experts" guidance, for both auditing and accounting purposes. Currently, the International Accounting and Assurance Standards Board (IAASB) has a project to revise its "use of experts" standard, and the American Institute of Certified Public Accountants (AICPA) has indicated that it will wait for that project before working on a similar standard. During the SEC meeting, Taub said a company's internal actuary would not be considered an

expert under SEC rules, but a third-party actuary could be. As the IAASB, AICPA, SEC, and possibly the PCAOB consider guidance for experts, the Academy will need to stay involved.

In addition to Blanchard, Knapp, Sohn, and Watkins, others who participated in the June 23 meetings were Burt Jay, the Academy's vice president for risk management and financial reporting; Henry Siegel, vice chairperson of the committee; and Errol Cramer.

— ETHAN SONNICHSEN

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Rade Musulin
Geoffrey Sandler
Donald Segal

EDITOR

Linda Mallon
(editor@actuary.org)

DESIGN AND PRODUCTION

BonoTom Studio Inc.

MARKETING AND PUBLICATION

PRODUCTION MANAGER

Joseph Vallina

American Academy of Actuaries

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MANAGING EDITOR, INTERNET AND NEW MEDIA

Anne Asplen

EXECUTIVE OFFICE

The American Academy of Actuaries
1100 Seventeenth Street NW
Seventh Floor
Washington, DC 20036
Phone 202-223-8196
Fax 202-872-1948
www.actuary.org

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Academy Annual Meeting

October 10-11, 2005 ▲ Mayflower Hotel ▲ Washington

“The Actuarial Profession at the Crossroads”

The Academy has been serving the profession and the public for 40 years, and now is the time for the Academy to salute the contributions of its volunteers! This year the annual meeting will be a stand-alone event in Washington D.C., featuring a grand gala celebration of the Academy's 40th Anniversary, and a challenging program tackling the most important issues facing the profession today.

The registration fee for Academy volunteers has been waived in recognition of their contributions to the profession and the public. Non-volunteers can register to attend the meeting for the nominal fee of \$200.

Up to 8 hours of continuing education credit is being offered – free for Academy volunteers!

ANNUAL MEETING AGENDA

DAY 1—MONDAY, OCTOBER 10

8:00–9:00 AM Breakfast

9:15–10:15 AM General Session I: The Risks and Opportunities Facing the Profession
The Academy's Critical Review of the U.S. Actuarial Profession task force (CRUSAP) has been charged with evaluating the risks and opportunities facing the profession using enterprise risk management and management consulting techniques. Task force Chairperson Fred Kilbourne will provide an update on the task force's work.

10:30 –11:45 AM Concurrent Sessions A1 – A4: Implications for the Profession
Members of the CRUSAP task force will lead discussions and collect input on some of the major challenges facing the profession. Some of the topics will be: 1) The multiple organizational structure of the actuarial profession; 2) Basic and continuing education and credentialing; 3) The regulation of the actuarial profession.

NOON–2:30 PM Annual Meeting & Luncheon
▶ Keynote Speaker: Shaun Wang, Director of Actuarial Science Program, Georgia State University
▶ Presentation of the Jarvis Farley Service Award
▶ Installation of new Academy President

2:45–4:30 PM Concurrent Session B1: Financial Economics: Truly the Wave of the Future?

2:45–4:30 PM Concurrent Session B2: Principle-based Methodologies: What Will Be the New Role for the Actuary?

6:30–10:00 PM 40th Anniversary Celebration: A Salute to Academy Volunteers

DAY 2—TUESDAY, OCTOBER 11

8:30–9:20 AM Breakfast Session

9:30–11:00 AM Concurrent Session C1: Public Policy Challenges Facing the Pension Actuary

9:30–11:00 AM Concurrent Session C2: Public Policy Challenges Facing Insurance Actuaries

11:10 AM–12:10 PM Concurrent Sessions D: Setting the Public Policy Agenda (by area of practice)

12:15–2:00 PM Academy Luncheon
Therese M. Vaughan, Robb B. Kelley Distinguished Professor of Insurance, Risk Management, and Actuarial Science at Drake University, former Iowa Insurance Commissioner and NAIC president

2:15–3:45 PM General Session IV: Litigation Risk and the Practicing Actuary

4:00–5:00 PM Concurrent Sessions E: Responding to the Challenge of Litigation Risk (by area of practice)

Go to
www.actuary.org
to find out more information.

Call the Academy's meeting planner
Denise Winston, at 202-223-8196,
if you have questions.

