MAY 2010

Actuarial UPDATE

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

New Rules, Ideas Features of 2010 EA Meeting

WITH MANY PENSION PROTECTION ACT rules taking full effect in 2010 and the recent adoption of final regulations related to some of the outstanding issues in Sections 430 and 436 of the Internal Revenue Code, the 2010 Enrolled Actuaries Meeting was again a vital source of actuarial education. The meeting, jointly sponsored by the Academy and the Conference of Consulting Actuaries, took place April 12-14 in Washington.

Presenters at the opening general session reviewed PPA implementation issues related to IRS regulations. One central topic the speakers discussed was automatic approval rules under PPA for changes in the funding method, including changes in asset method and liability method, change of actuary, and change of software—including the provisions set forth under IRS Announcement 2010-3 issued on Dec. 28. The presenters also discussed changes related to mergers and spinoffs, noting that the IRS hasn't extended Rev. Proc. 2000-40 for post-PPA valuations. Unless both plans have identical methodologies and merged on the first or last day of the plan year, they said, plans should apply to the IRS for approval under Rev. Proc. 2000-41.

SEE **EA MEETING**, PAGE 5

From left to right, Phyllis Borzi, head of the Employee Benefits Security Administration, speaks with Academy member Larry Sher and Academy Senior Pension Fellow Frank Todisco at the 2010 Enrolled Actuaries Meeting.

Spring 2010 NAIC Meeting

LHATF Works on VM-20 at Denver Meeting

THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) met March 25-28 in Denver for its spring 2010 national meeting. In the effort to complete the valuation manual to accompany the revised standard valuation law passed last year, the Life and Health Actuarial Task Force (LHATF) adopted an amendment related to the default costs on existing assets (VM-20, *Requirements for Principles-Based Reserves for Life Products*), which was recommended by the Academy Life Reserves Work Group's Asset Subgroup. The task force also voted to release for comment the modifications recommended by the Academy on Actuarial Guideline XXV, *Calculation of Minimum Reserves and Minimum NonForfeiture Values for Policies with Guaranteed Increasing Death Benefits Based on an Index*.

The task force also moved to amend and release for comment: VM-31, *PBR Report Requirements for Business Subject to a Principle-Based Reserve Valuation*; VM-50, *Experience Reporting Requirements*; and VM-51, *Experience Reporting Formats*.

The NAIC's Annuity Disclosure Working Group received comments from the Academy on March 26 regarding draft revisions of annuity illustration guidelines. The working group also reviewed the illustration template recommended by the Academy.

NAIC Notes

- The Academy's Medicare Supplement Work Group provided additional comments to NAIC on the draft revisions to the Medicare supplement compliance manual, clarifying the use of the pooling approach used in the manual and how it may interact with loss ratio standards. The work group first submitted comments Feb. 2. To read Academy updates on other NAIC projects, visit www.actuary.org/naic/life.asp.
- The NAIC adopted a new version of the climate risk disclosure survey during its plenary session. The adopted survey replaces an earlier version approved in 2009.

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Survey panel sought

3 New General Counsel
Vissicchio joins Academy

7 Shifting Gears
Letters to NAIC target health care reform regulation

8 Crisis Response Plan
Webinar tracks financial regulatory reform

MAY

19 "How Will PBA Rock Your World?" seminar (Academy, SOA), Tampa, Fla.

19 Council of U.S. Presidents meeting, Washington

20 Academy Board of Directors meeting, Washington

JUNE

7-8 Actuarial Standards Board meeting, Washington

17 Webinar on the Qualification Standards and the SOA's CPD requirements (Academy, ASPPA, CAS, CCA, SOA)

JULY

8-11 NCOIL summer meeting, Boston

26-28 45th Actuarial Research Conference, Vancouver, Canada

AUGUST

10 Academy Executive Committee meeting, Washington

14-17 NAIC summer meeting, Seattle

26 Actuarial collaboration meeting, Ottawa, Canada

SEPTEMBER

5 Webcast on best of *Contingencies* "Up to Code" articles (Academy, ASPPA, CAS, CCA, SOA)

16-17 Actuarial Standards Board meeting, Washington

22 PBA implementation seminar (Academy, SOA), Chicago

30 Council of U.S. Presidents meeting, Mont-Tremblant, Quebec, Canada

OCTOBER

1-2 North American Actuarial Council meeting, Mont-Tremblant, Quebec, Canada

5 Academy Board of Directors meeting, Washington

15 IAA meeting, Vienna, Austria

17-20 SOA annual meeting, New York

18-21 NAIC fall meeting, Orlando, Fla.

24-27 CCA annual meeting, Rancho Mirage, Calif.

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

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

Academy NEWS Briefs

Board Seeks 'Academy Advisors' to Contribute Input

New Program Directly Connects Membership, Leadership

ACADEMY MEMBERS INTERESTED IN RESPONDING to periodic surveys about the Academy's work on public policy and professionalism can volunteer for the new Academy Advisors panel. The surveys that Academy Advisors will be asked to complete will be brief, focused, and vital to the interests of the profession and the Academy.

The Academy Advisors will be instrumental in providing assistance to the Academy leadership by adding a reliable, critical perspective to the decision-making and governance process. The approach has been used successfully by other U.S. actuarial organizations, and the goal is to have the program reflect the Academy's membership based on demographic distributions such as practice area, type of employer, and years in the profession.

"Academy Advisors will allow us to get timely input from members so that Academy leadership can react quickly to changes in the actuarial landscape," said Academy President Ken Hohman.

Academy members interested in joining the Academy Advisors should e-mail AcademyAdvisors@actuary.org.

The creation of the panel was suggested by the Strategic Planning Committee, which, along with the Governance Task Force, continues to develop recommendations for the Academy board to shape the future of the Academy's work. To share your own ideas with those groups or to view updates on their progress, visit their pages on the Academy's website. You can find the Strategic Planning Committee at www.actuary.org/spc.asp and the Governance Task Force at www.actuary.org/gtf.asp.

ERISA, *JEOPARDY!*

The May/June issue of *Contingencies* hits mailboxes this month. The issue features a proposal to overhaul the Employee Retirement Income Security Act by Mike Clark, a consulting actuary with the Principal Financial Group in Pittsburgh, and the reflections of an actuary turned *Jeopardy!* champion, Academy member Tom Toce. To read *Contingencies* online, visit www.contingencies.org.

IN THE NEWS

Sen. Lamar Alexander (R-Tenn.) cited a Nov. 20 Academy comment letter regarding health care reform legislation during a Senate session broadcast by C-SPAN2 on March 1. Sen. Alexander entered the Academy's letter into the Senate record. Video is available in the Academy's newsroom.

The March 2010 edition of HealthLeaders-InterStudy's *Pennsylvania Health Plan Analysis* quoted Academy Health Practice Council member Geoffrey Sandler, a health benefit systems actuary with Horizon Blue Cross Blue Shield of New Jersey, regarding pricing adult dependent coverage under a new Pennsylvania law allowing employers the option of extending coverage for adult dependents up to age 30. Most Pennsylvania insurers are charging adult employee rates separately for these added dependents. Sandler said that medical costs for adult dependents are closer to those of adult employees, not child dependents. He said child dependents are priced separately because their medical costs are much less than adult employees'. But when covering a 30-year-old dependent, "it does not make a difference so much that he or she is a dependent, because the kind of medical things they're exposed to are the same things that every other adult is exposed to."

Academy Senior Pension Fellow Frank Todisco was cited as the source of a statistic on the cost of living in an Associated Press article that was published in the March 6 *Seattle Times*. The article referenced Todisco's remark during a 2009 Academy Capitol Hill briefing that the cost of living for single retirees is about 40 percent higher than for couples because couples can share housing and other expenses.

The Academy Life Products Committee's Jan. 10 com-

➔ CONTINUED ON PAGE 3

Vissicchio New Academy General Counsel

GINO VISSICCHIO has joined the Academy as general counsel and director of professionalism. He started at the Academy on May 3.

Vissicchio has more than 15 years of experience in a variety of legal settings. He has an extensive background in complex litigation, compliance counseling, and risk mitigation on behalf of clients in both the public and private sectors.

"Gino, with his broad experience, is extremely well suited to oversee the Academy's legal affairs and advance our professionalism work to help establish, maintain, and enforce high professional standards of actuarial qualification, practice, and conduct," says Academy Executive Director Mary Downs.

Vissicchio served as a trial attorney at the Department of Justice, where he was awarded a special commendation for outstanding service, and was in-house counsel for a publicly held telecommunications company in the Washington area. He also has more than 10 years' experience practicing with major firms, including Hogan & Hartson in Washington and Orrick, Herrington & Sutcliffe in New York.

Vissicchio is an honors graduate of the University of Pennsylvania, where he received his bachelor's degree, and the University of North Carolina School of Law, where he received his juris doctorate and also served on the law review.

➜ CONTINUED FROM **PAGE 2**

ments to the Interstate Insurance Product Regulation Commission Management Committee regarding guaranteed living benefits for individual deferred annuities were quoted in a March 8 *National Underwriter Life and Health* article. The Academy said that allowing institutional investors to buy guaranteed living benefit annuities will introduce concentration of risk: "[T]he reserve and capital requirements would be much higher, and thus the risk charges and other charges associated with the guaranteed living benefit would have to be increased, likely by a significant amount." Additional coverage is available in the February *Update*.

A March 12 *Fortune*/CNNMoney.com article analyzing health care reform legislation cited and linked to the Academy's July 22 letter to congressional leaders regarding the long-term sustainability of the Community Living Assistance Services and Supports (CLASS) Act. The Academy letter contained recommendations for improving this long-term care provision and an actuarial analysis conducted by a joint work group of the Academy and Society of Actuaries.

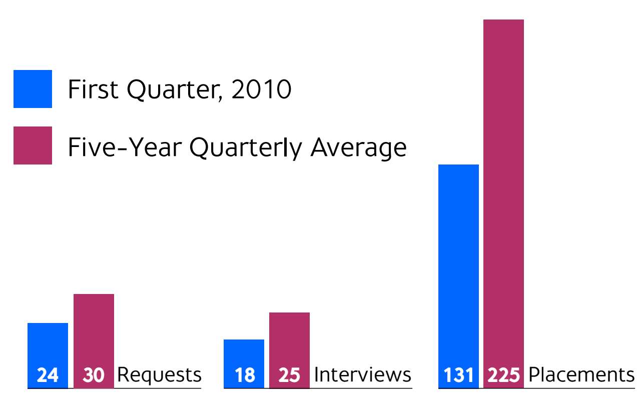
The March 22 issue of *BestWeek* discussed various associations' contributions to major reform initiatives in Washington. The article mentioned the Academy's efforts on health care reform, urging policymakers to ensure that reform reflects actuarial principles and to include an effective and enforceable individual health insurance coverage mandate to reduce adverse selection.

The Academy Enterprise Risk Management (ERM) Subcommittee's comment letter to the National Association of Insurance Commissioners (NAIC) regarding regulation of corporate governance and risk management was cited in a March 23 *National Underwriter Life and Health* article. Academy ERM Subcommittee Chairperson Maryellen Coggins, a consulting actuary and director for PricewaterhouseCoopers in Boston, was quoted as the letter's author. Coggins wrote that the NAIC should consider the U.S. insurance industry's existing environment before any new insurance regulations related to corporate governance and risk management are added so that that any new regulations would be enhancements to, rather than replacements of, existing frameworks.

The *New York Times*' Economix blog on March 30 cited and linked to the American Academy of Actuaries Critical Issues in Health Reform policy statement *Gender Consideration in the Voluntary Individual Health Insurance Market*. The Academy wrote that before age 50, women "generally incur higher medical spending than men, even excluding the costs of normal maternity care."

To find out about other actuaries in the news and for external links, visit the Academy's newsroom.

MEDIA RELATIONS ACTIVITY REPORT — FIRST QUARTER, 2010



Note: A request is a media inquiry for more information (e.g., statistics, comments, work products, etc.) or for media credentials to an Academy event. An interview occurs when the Academy is able to provide a spokesperson to meet a media request. When an interview is fulfilled, it is no longer tallied as a request. A placement is an article containing an Academy reference, quote, or attribution from an Academy spokesperson or the placement of an Academy-produced letter to the editor/op-ed. A five-year quarterly average is the statistical mean of the past 20 quarterly totals for each category (requests, interviews, and placements).

HEALTH BRIEFS

- **Jeffrey Kay**, assistant vice president for UnumProvident Corp. in Chattanooga, Tenn., has joined the Long-Term Care Valuation Work Group, a joint group of the Academy and Society of Actuaries.

Financial Reporting Committees Convene

THE ACADEMY'S FINANCIAL REPORTING COMMITTEES held their second annual joint meeting March 24 to discuss cross-committee issues and to update one another on their independent projects. The meeting, held in Chicago, brought together members of the Committee on Property and Liability Financial Reporting (COPLFR), Financial Reporting Committee, Life Financial Reporting Committee (LFRC), and Pension Accounting Committee.

Among the goals of the meeting was to discuss cross-committee coordination of issues and Academy outreach suggestions. One issue that was raised was the International Actuarial Association's (IAA) Insurance Accounting Committee proposed statement of intent from the March IAA meeting in Cape Town, South Africa. The committee proposed taking an international financial reporting standard that addressed general ideas related to data validation and quality and documentation and making it an actuarial standard of practice that's applicable to international work. The IAA Professionalism Committee said, however, that its application was not limited to international reporting and, therefore, the project should be conducted on a broader level, which would require more people to write the model standard. International Financial Reporting Standards Task Force Chairperson William Hines added that there is work underway to reformat practice notes into international actuarial standards of practice and that it is unclear when the IAA draft will be issued. Risk Management and Financial Reporting Council Vice President Henry Siegel suggested the group look at the issue once the IAA draft was exposed for comment.

The Academy volunteers also discussed the NAIC's Solvency Modernization Initiative. Financial Reporting Committee Chairperson Rowen Bell suggested LFRC and the Risk Management and Solvency Committee might be interested in addressing the initiative, although Henry Siegel said there will be further NAIC discussion before the timing is ripe for official comments.

Meeting attendees held a general discussion, led by Hines, on the International Accounting Standards Board's (IASB) exposure draft for its insurance contracts standard. He suggested that the IASB draft is likely scheduled for release in July with a September comment deadline. He said that the goal of the IASB and Financial Accounting Standards Board (FASB) is to issue a final standard by June 2011, and since the exposure period is likely to be shorter than 90 days, the Academy's IFRS Task Force will meet in June and begin preparation to address key positions. Hines recommended articulating a set of principles for public reporting by insurance companies in the comment letter. Bell also recommended holding a coordination call of all the IAA Insurance Accounting Committee delegates of the U.S.-based associations when the insurance contracts paper is released.

Representatives from the different practice areas also provided updates on each committee's activities for the year.

Pension Accounting Committee Chairperson Steve Alpert reported that his committee responded in August 2009 to the Governmental Accounting Standards Board's (GASB) request for comment on a total redesign of benefit plan accounting, including a discussion of what the theory of accounting should be and what certain measures mean. Alpert said that all of the developments on pension accounting issues are being led at the IASB, and a proposal is expected in the near future that will revamp International Accounting Standard No. 19, *Accounting for Employee Benefits*.

COPLFR Chairperson Joe Herbers reported that his committee's primary goals this year are to aid casualty actuaries who write statements of actuarial opinion and to produce a practice note on the model audit rule. He also discussed the Academy's Effective P/C Loss Reserve Opinion Seminar, relevant ASB activities, and the results of a feedback survey on the annual *P/C Loss Reserve Law Manual*.

Bell discussed the Financial Reporting Committee's written comment letters in 2009-2010 on revenue recognition, financial statement presentation, and credit risk, among other subjects. A subgroup led by Steve Strommen drafted a white paper on discount rates. Bell also noted that some comment letters were referred to LFRC, since issues like financial instruments and acquisition costs are primarily oriented to the life industry. In addition, he gave an update on the Health Practice Financial Reporting Committee, which is working on a practice note regarding active life reserves for accident and health products. The committee also has requests from NAIC on risk-based capital work, and some of its members are on the International Financial Reporting Standards Task Force to provide a U.S. health perspective in its input.

LFRC Chairperson Lenny Reback discussed the committee's two big projects: a practice note on market consistent embedded value and a practice note on how current IFRS affects actuaries, both of which are planned to be exposed soon. The committee has begun work on another practice note concerning goodwill impairment and is formulating comments to FASB on its amortized costs paper, which is part of its financial instruments project. The committee previously commented on a recent FASB exposure draft on deferred acquisition costs (DAC), which would restrict how much DAC would be capitalized.

—TINA GETACHEW

RISK MANAGEMENT AND FINANCIAL REPORTING BRIEFS

➥ **Gary Scofield**, executive vice president and corporate actuary for Security Mutual Life Insurance in Binghamton, N.Y., has joined the Academy's Financial Regulatory Reform Task Force.

EA Meeting, continued from page 1

They also warned that what may appear logical to the actuary may not automatically seem logical to the IRS—so it's always better to confirm gray areas in advance.

"I would feel more comfortable going to the IRS for a ruling," said presenter Ethan Kra, Academy vice president for pension issues and worldwide partner and chief actuary for Mercer in New York.

The speakers also pointed out that, unlike pre-PPA current liability rules that call for rounding an adjusted funding target attainment percentage (AFTAP) to the nearest .01 percent, the 2009 Schedule SB instructions state that the AFTAP should be truncated, or rounded down to the next lowest .01 percent. Under that treatment, an AFTAP that rounds to 79.99 percent would make the plan subject to benefit restrictions. If that happens to a plan, the presenters suggested including an attachment to the Schedule SB noting that the plan administrator utilized a reasonable interpretation of the statute for 2009 and administered the plan on the basis of the AFTAP rounded to the nearest .01 percent—and, therefore, didn't apply benefit restrictions. Plans for 2010, however, would definitely need to adjust to the new rounding rules, they added.

Discussion turned to investment strategy for pension plans in the second general session. In light of the previous 10-year cycle in which fixed-income investments outperformed equities and at the end of which pension liabilities are being measured based on fixed-income yields at near historic lows, the panel examined potential changes in investment strategy into the 21st century.

To explain why new pension strategies based on short-term investment horizons make sense, Evan Inglis began in the style of a sermon. "We've sinned," Inglis jokingly preached. "We've prayed at the alter of high equity returns, and we've found them to be a false...prophet."

Although the past 10 years may not have been a typical decade, neither was the 20-year interval from 1980 to 1999, Inglis said. That period saw unprecedented 20-year equity returns that hid the costs underlying many pension plans. Plans grew larger than the overall company did during the same time, while corporate contributions became smaller and participants became older and began retiring. So when the market hits followed, the large pension liabilities had unprecedented impact on corporate balance sheets.

Because shareholders may not support seeking risks in pension plans, Inglis supported liability-driven investment strategies to match pension liabilities, where possible, with assets that have similar cash flows. But speaker Jerry Mingione, principal for Towers Watson in Philadelphia, guarded against taking the same kind of "everything is different now" attitude that was responsible for counting on unrealistic market gains during the boom. Applying overly conservative investment strategies, he said, ignores the observable expected equity risk premiums for those who can withstand short-term market volatility.

"What goes up, later comes down—and vice versa. If you're able to take on the risks associated with those ups and downs, over time you will be rewarded," Mingione said, adding that stakeholders aren't advantaged by pension plans that cost far more than necessary over time.

To conclude the meeting, the third general session turned to the future of retirement in the United States. Academy Senior Pension Fellow Frank Todisco led off the session with some observations on the past, present, and potential future of U.S. retirement policy. In light of the demographic challenges of an aging society, he predicted greater pressure in the U.S. for more economically efficient use of pension expenditures. Todisco highlighted the advantages of raising Social Security's retirement age, as detailed in the Academy's 2008 public interest advocacy statement, noting that it's a way to help sustain relative benefits and standards of living while avoiding exorbitant tax increases. In considering some of the opposition to such a change, however, he offered a holistic view of labor and retirement policy and suggested the possibility of a later retirement age being combined with improvements in the quality of life while working.

Steve Goss, chief actuary for the Social Security Administration, shared the program's demographic data, which project big increases to new, permanently higher dependency ratios over the next 20 years. Goss characterized the continuing retirement of the baby boom generation as a "temporary bulge," attributing the permanent worsening of dependency ratios to longer life expectancies and, even more so, to lower birth rates. This demographic shift will continue to strain Social Security and, to an even greater degree, Medicare.

Goss was followed by Judy Miller, chief of actuarial issues for the American Society of Pension Professionals and Actuaries. Miller examined U.S. "tax expenditures" on retirement security programs—i.e., the foregone tax revenue resulting from the tax preferences given to retirement plans and accounts—and the potential impact of the Obama administration's proposed auto-individual retirement account program. Phyllis Borzi, assistant secretary of labor and head of the Employee Benefits Security Administration, closed the session by discussing the department's efforts to make defined contribution plans work better for participants, including initiatives on investment advice and disclosure, educational outreach, and securing income during the retirement years.

Jarvis Farley Service Award

The Academy is requesting nominations for the 2010 Farley Award, which is presented annually to an actuary who has provided sustained exemplary volunteer service to the profession.

With the exception of current Academy officers, all Academy members are eligible for the award. Past Academy presidents are eligible for consideration only for the volunteer work they have done after completing their terms of office.

For more information, visit the Academy website.

Nomination Deadline: July 1

Casualty Among Academy Responses to ASOP 41 Exposure Draft

THE ACADEMY'S CASUALTY PRACTICE COUNCIL recently provided comments to the Actuarial Standards Board (ASB) on the latest exposure draft of Actuarial Standard of Practice (ASOP) No. 41, *Actuarial Communications*. In the attempt to provide a single standard that would cover communication, disclosure, and documentation issues for all actuarial work, the council wrote that the exposure draft fell short of what is needed for some actuarial services and set the bar too high for others.

According to the council, the revision is intended to eliminate the need for property/casualty-specific ASOP No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*. In light of that, the council strongly indicated that the current exposure draft is inadequate as the sole standard for actuarial disclosures and documentation for some actuarial services, especially statutorily required statements of actuarial opinion. To resolve this issue, the council said, ASOP No. 41 would need to incorporate much of the language currently in ASOP No. 9.

The council asserted, for example, that Section 5.2 of ASOP No. 9 is of critical importance for property and casualty insurance ratemaking, loss reserving, and valuation actuarial work products. The comments recommended that similar language be included or retained in any ASOP covering property and casualty insurance ratemaking, loss reserving, and valuation work products. However, the council did not believe that this language should be in ASOP No. 41, which applies to all practice areas.

The council recommended retaining ASOP No. 9 and considering whether other practice areas also have specific disclosure and documentation needs for which other practice-specific ASOPs should be written.

The council also agreed with concerns expressed in a comment letter from Academy member Ken Quintilian that the recent draft seemed to go beyond "standard practice" with regard to the requirement of a defined "actuarial report" for much of actuaries' day-to-day work.

Several other Academy groups also submitted comments on the exposure draft. The Academy's Health Practice Council, Risk Management and Financial Reporting Council, Pension Committee, and Council on Professionalism's Committee on Qualifications pointed out areas that could benefit from a clarification in terms. Some of the issues mentioned included differences in terminology, such as actuarial reports and actuarial findings, responsibilities between intended users and unintended uers, and what disclosures could be considered either necessary or "inappropriate." All the comments can be found together on the ASB's website.

—LAUREN PACHMAN

PROFESSIONALISM BRIEFS

- **Cande Olsen**, consulting actuary for Actuarial Resources Corp. in Chatham, N.J., has joined the Academy's Council on Professionalism.

NOMINATIONS SOUGHT FOR 2010 MYERS SERVICE AWARD

Do you know an actuary who has made an outstanding public service contribution? The Academy is looking for nominations for the 2010 Robert J. Myers Service Award.

The award, named for the former chief actuary of the Social Security Administration, recognizes actuaries with a single noteworthy public service achievement or those who have devoted careers to public service. The nominee may be a current or former government employee, the employee of an organization whose primary focus is government work, or an unpaid volunteer working at a philanthropic organization. Public work completed by a paid consultant, by a member of an actuarial committee, or by someone who is an officer of an actuarial organization is ineligible. Please visit http://www.actuary.org/awards/myers.asp for more information about the Myers Award or to nominate an outstanding actuary online. You can also print out a nomination form at http://www.actuary.org/awards/pdf/myers_nominate10.pdf. Nominations are due by July 1, 2010.

Academy Participates in Regulatory Health Care Reform Process

AS THE REGULATORY PHASE of health care reform heats up, the Academy's Health Practice Council has formed work groups to focus on issues related to the Patient Protection and Affordable Care Act (P.L. 111-148) signed into law in March. One such group, the Medical Loss Ratio Regulation Work Group, contributed the first efforts in what is expected to be a long, ongoing process. It submitted a comment letter April 20 to National Association of Insurance Commissioners (NAIC) groups on medical loss ratio (MLR) reporting under the newly created Section 2718 of the Public Health Service Act.

The Academy work group, which also plans to respond to a request for comments on the MLR provision in the new law by the Departments of the Treasury, Labor, and Health and Human Services, first identified important questions about the law to the NAIC, the regulatory authority stipulated by the legislation.

"While these are not the only questions we have about the statute, we have singled out these questions because we believe they are fundamental to the NAIC charge," the work group wrote.

One critical question concerned which products are subject to the reporting and rebate requirements and whether some products that are "excepted benefits" under the HIPAA—such as Medicare supplement policies, dental-only and vision-only policies, hospital indemnity, long-term care, and disability income—are excluded from the scope of Section 2718.

The work group acknowledged potential confusion for the two sets of reporting instructions under Section 2718(a) and 2718(b) and how the apparent inconsistency will affect the definition of the ratio's numerator and denominator. There were also questions related to whether the MLR reporting and rebate requirements for an insurer should be reported on a nationwide basis or state-by-state basis and whether multiple related legal entities in the same market should be treated as a single entity. These questions also affect how to apply the statute's MLR threshold for determining rebates.

Other questions related to distinctions between plan year and calendar year, credible experience, and reinsurance arrangements.

The MLR Subgroup also sent a second letter to the NAIC on April 28 that addressed MLR considerations and the potential disruptive impact that the implementation of the new Section 2718 could have on the individual health insurance market.

LIFE BRIEFS

- **Alice Fontaine**, president of Fontaine Consulting in Cedar Park, Texas, has been appointed chairperson for the Academy Valuation Law and Manual Team's Life Scope Subgroup.
- **Linda Lankowski,** an actuary in Wilbraham, Mass., has joined the Academy's LPC Public Interest Task Force.
- **Jin Yan**, an actuary for New York Life Insurance Co. in New York, has joined the Academy's Annuity Reserves Work Group.
- **Scott Selkirk**, assistant vice president and life actuary for ACE Tempest Life Reins Ltd. in Bermuda, has joined the Academy's Life Reserves Work Group.
- **Pamela Bottles**, assistant vice president for Jackson National Life Insurance Co. in Lansing, Mich.; **Yuhong Xue**, retirement solutions officer for Guardian Life Insurance Co. in New York; and **Michael Altier**, associate vice president for Nationwide Financial Services in Columbus, Ohio, have joined the Academy's Variable Annuity Practice Note Work Group.
- **James Cleary**, vice president for Nationwide Financial Services in Columbus, Ohio, has joined the Academy's C3 Life and Annuities Work Group.
- **Bruce Rosner**, manager for Ernst & Young in New York, has joined the Academy's Modeling Efficiency Work Group.

NAIC Meeting, continued from page 1

- The NAIC adopted revisions to the model regulation on suitability in annuity transactions to strengthen the existing model's provisions and better protect consumers from inappropriate and abusive marketing practices. The NAIC will also hold a public hearing May 20 in Washington on the emergence of stranger originated-and-owned annuities.
- A public hearing was held to explore the issue of readability standards and the use of plain language in insurance policies. Three panels consisting of insurance regulators, NAIC consumer representatives, and insurance industry representatives provided testimony and presentations at the hearing. The NAIC's Consumer Connections Working Group began exploring the issue of readability at the 2009 winter meeting in San Francisco.

Webinar Tracks U.S. Financial Reform

THE ACADEMY'S FINANCIAL REGULATORY REFORM TASK FORCE hosted a webinar April 20 that analyzed federal regulatory responses to the financial crisis. Led by task force members Nancy Bennett, John MacBain, Kris DeFrain, and Chairperson Jesse Schwartz, the presenters discussed current proposals for modernizing financial services regulation, the potential effects of those responses on the life and casualty insurance industries, and the reactions to the proposals from the Academy and the National Association of Insurance Commissioners (NAIC).

Bennett reviewed the causes of the financial crisis and outlined the financial regulatory reform proposals issued by government agencies and the Obama administration. MacBain discussed proposed legislative reforms included in the Wall Street Accountability and Consumer Protection Act of 2009 (H.R. 4173), which passed the House in December 2009, and in Sen. Chris Dodd's (D-Conn.) proposed Restoring American Financial Stability Act, which was introduced to the full Senate in April. In his presentation, MacBain focused on regulatory reforms related to derivatives, credit rating agencies, and the proposed consumer protection agencies.

The webinar presenters also discussed the Academy's responses to the financial crisis, which included submitting testimony to various House and Senate committees supporting the establishment of a governmental systemic risk regulator, urging the creation through federal regulation of an Office of the Chief Actuary, and developing a white paper outlining risk management requirements for effective systemic risk regulation.

DeFrain, actuarial and statistical director for the NAIC in Kansas City, Mo., provided the NAIC's perspective on the federal regulatory proposals. She cautioned that the NAIC believes the proposed reforms are unnecessary for life insurers and wouldn't be effective for property/casualty insurers. She also discussed the background of the U.S. solvency system and the framework and goals of the NAIC's Solvency Modernization Initiative. (For more details on that initiative, see the April *Update*.)

For more information on the webinar or to access the speakers' slides, visit the Academy's website.

—TINA GETACHEW