OCTOBER 2002

THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Actuarial UPDATE

Academy Hill Briefing

Straight Talk on DC Health Plans

COMING SOON to a workplace near you: The defined contribution (DC) health plan.

Or is it?

Also known as consumer-driven, e-health, and self-directed health plans, DC health plans are the newest idea in employer-sponsored health care coverage. They typically provide an employer health care contribution that employees then use to purchase the health care coverage of their choice (often from a cafeteria of employer-selected options).

At right, Brent Greenwood talks to a journalist while Patrick Collins, center, listens.

The buzz about these types of plans "is beginning to rise to the level that managed care had about a decade ago," Patrick Collins, vice president and reinsurance underwriter for American Re-Insurance Co., told Washington policy-makers and reporters attending a Sept. 13 Academy briefing on the topic.

But the number of defined contribution health plans on the market is still limited, Collins said, and their eventual popularity — both among employers seeking to control costs and among employees seeking to manage their own health care — is unknown. "Potential cost savings are based on theoretical assumptions that need to be proven out," Collins said.

Joining Collins at the Capitol Hill briefing were Brent Greenwood, a principal in the Atlanta office of Reden & Anders, Ltd., and Cori Uccello, the Academy's senior health fellow. Collins and Greenwood are members of the Academy's Defined Contribution Health Plans Work Group, which recently released an issue brief on DC health plans (to read it online, go to www.actuary.org/pdf/health/dc_june02.pdf).

Using as his example a health reimbursement arrangement (HRA) plan (a type of DC plan that is currently gaining momentum in the marketplace), Greenwood said that many variables could influence its cost,

See DC HEALTH PLANS, Page 6

Inside

Pensions Made Plain

THE ACADEMY'S pension assistance list (PAL) program, which helps consumers who have questions about their pension plans, was featured in the September 2002 issue of AARP's *Modern Maturity*, the nation's largest-circulation magazine.

> Mention of the Academy's Pension Assistance List (PAL) program in *Modern Maturity* has triggered a flood of requests for assistance.

Within days, the Academy started receiving phone calls from people all over the country seeking assistance in understanding their pension benefits.

In the present economic climate, this comes as no surprise. But pensions have always been complex, says John Parks, the Academy's vice president for pension issues and a PAL volunteer. "As pension actuaries, we understand these complexities," Parks says. "I think that's the value we bring to the table."

The PAL program was created by the Academy several years ago to tap that value for the public good, but also to broaden actuaries' understanding of the concerns participants have about their pension plans.

The magazine article has already gen-

See PENSIONS, Page 5

Calendar

OCTOBER

4 Academy Medicare Supplement Work Group meeting, Chicago

7-8 CAS catastrophe risk management seminar, Atlanta

10-11 Academy Health Rate Filing Task Force meeting, Washington

19-21 IAA Council and committee meetings, Barcelona, Spain

24 Academy Financial Reporting Council meeting, New York

27-30 ASPA annual conference, Washington

27-30 SOA annual meeting, Boston

29 Academy annual meeting, Washington

30 Academy Life Valuation Subcommittee meeting, Boston

31 Academy Life Capital Adequacy Subcommittee meeting, Boston

NOVEMBER

3-6 CCA annual meeting, Amelia Island, Fla.

6-7 Expert Witness Seminar, Amelia Island, Fla. (Academy, CCA)

6-7 FAS 106 Seminar, Amelia Island, Fla. (Academy, CCA)

6-8 Annual Investment Actuary Symposium, Chicago (Academy, CCA, SOA)

10-13 CAS annual meeting, Boston

11 Academy Pension Practice Council meeting, San Francisco

12 Academy Pension Committee meeting, San Francisco

12 Academy Casualty Practice Council meeting, Boston

12-15 Academy Life and Health Qualifications Seminar, Washington

14-15 SOA/CCA seminar on health disability income, Chicago

20 Academy Committee on Professional Responsibility meeting, Washington

21 Academy Health Rate Filing Task Force meeting, Chicago

27 CIA professionalism workshop, Toronto

27 CIA investment seminar, Toronto

28-29 CIA general meeting, Toronto

DECEMBER

3-4 Academy leadership meeting, Washington

4-5 SOA beginning risk management seminar, New York

5-6 SOA advanced risk management seminar, New York

5-6 SOA underwriting risk management seminar, Tampa, Fla.

5-6 NAIC Life and Health Actuarial Task Force meeting, San Diego

7-10 NAIC winter meeting, San Diego

16-17 ASB meeting, Washington

18 Academy Life Financial Reporting Committee meeting, Washington

JANUARY

8 Academy Council on Professionalism meeting, Washington

23 Academy Board of Directors meeting, Washington

26-29 SOA long-term care insurance seminar, Las Vegas

FEBRUARY

2 Academy Pension Practice Council meeting, New Orleans

3 Academy Pension Committee meeting, New Orleans

SAVE THE DATE!
ACADEMY WASHINGTON FORUM
MAY 9, 2003

Academy NEWS Briefs

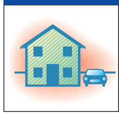
The Academy celebrated the completion of the CSO table project with a thank-you dinner at the NAIC's fall meeting in New Orleans. Attending were, clockwise from top left, Tom Campbell, William Carroll, Norm Hill, CSO Task Force Chairperson Faye Albert, Robert Wilcox, Andrew Erman, David Sandberg, Life Insurance Policy Analyst Steve English, Former Vice President for Life Issues Barbara Lautzenheiser, Mike Batte, who chairs the NAIC's Life and Health Actuarial Task Force, and Tom Rhodes. For further coverage of the Academy's activities at the NAIC meeting, go to Page 6.

A Good Man for the Job In an Aug. 28 letter to the chairman of the Securities and Exchange Commission, Academy President **Dan McCarthy** recommended **Dick Robertson**, a former Academy president and former executive vice president and chief financial officer for Lincoln National Corp., for appointment to the Public Company Accounting Oversight Board. The board is being established as a provision of the accounting reform bill that was signed into law by President Bush on July 30.

Because many of the auditing functions covered under the new law's auditor independence section are performed by actuaries, the Academy has a strong interest in assuring that the implementing regulations are fair and provide clear guidance, McCarthy said in his letter. In addition to his professional experience, Robertson's service as a member of the Actuarial Standards Board, as president of both the Academy and the Society of Actuaries, and as a member of the FASB Advisory Board uniquely qualify him for membership on the oversight board. To read the letter online, go to www.actuary.org/pdf/finreport/oversight_28aug02.pdf.

Rewarding Work **Ron Gebhardtsbauer**, the Academy's senior pension fellow, was recently awarded the top prize in the Journal Author Award Program of the *Journal of Financial Service Professionals* for an article on Social Security that appeared in the March 2001 issue of the journal. Gebhardtsbauer's article was adapted from a speech on Social Security that he has given at congressionally sponsored town hall forums around the country. The speech is available for use by actuaries who are making their own presentations to community groups. To download the speakers' kit, go to www.actuary.org/socsec/speakerskit.htm.

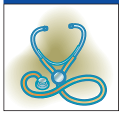
CASUALTY NEWS



Mark Mulvaney, a principal with Milliman USA in Denver, Colo., has joined the P/C Risk-Based Capital Committee.

► The P/C Federal Charters Task Force is facilitating a general session, "How Optional Federal Charters for P/C Insurance Companies will Affect Your Industry and Your Career," at the 2002 annual meeting of the Casualty Actuarial Society, Nov. 13 in Boston. **Bob Anker**, the Academy's president-elect, will moderate the session and **Charles Bryan**, chairperson of the task force, will be a panelist.

HEALTH NEWS



Frank Amrine, a senior actuary with Humana Inc. in Louisville, Ky., and **Scott Guillemette**, a principal at Tillinghast-Towers Perrin in Minneapolis, have joined the Health Liquidity Work Group.

PENSION NEWS

The Pension Practice Council has created a new Multiemployer Task Force, chaired by **James McKeogh**, president of The McKeogh Co. in West Conshohocken, Pa. Other members are **Lee Buchele**, consulting actuary with Cowden & Associates in Pittsburgh; **James Dexter**, consulting actuary with Mercer Human Resource Consulting in Princeton, N.J.; **Stan Goldfarb**, consulting actuary with Watson Wyatt Worldwide in Washington; **Ron Gebhardtsbauer**, the Academy's senior pension fellow; **Eli Greenblum**, a consulting actuary with The Segal Co. in Washington; **Ken Kent**, a consulting actuary with Mercer Human Resource Consulting in Washington and president of the Conference of Consulting Actuaries; **John Molinar**, consulting actuary with Milliman USA in St. Louis; **Brian O'Konski**, an actuary with the United Food and Commercial Workers International Union in Washington; **Samuel Stanley**, senior vice president at Aon Consulting in Southfield, Mich.; **Peter Verne**, principal and consulting actuary with Buck Consultants in Washington; and **Nancy Wagner**, consulting actuary with Milliman USA in Denver.

► At the request of the Financial Accounting Standards Board, the Pension Accounting Committee commented recently on cash balance accounting issues and the prevalence of cash balance plans. To read the letter online, go to www.actuary.org/pdf/pension/fasb_20aug02.pdf.

► The Pension Committee recently offered comments to the IRS on areas under IRC Section 412 that lack regulatory guidance or that needed new clarification for existing guidance. To read the letter online, go to www.actuary.org/pdf/pension/sec412_13aug02.pdf.

► The Academy's recent public statement, *Alternatives to the 30-Year Treasury Rate*, is included in the current *CCH Pension Plan Guide*, published by CCH, Inc., a provider of tax and business law information.

PROFESSIONALISM NEWS

Timothy F. Harris, a principal with Milliman USA in St. Louis, has joined the Academy's Council on Professionalism.

IN THE NEWS

► **Ron Gebhardtsbauer**, the Academy's senior pension fellow, and **Larry Sher**, a member of the Academy's Pension Practice Council and a principal with Buck Consultants in Teaneck, N.J., were quoted in a *Wall Street Journal* article about investing defined benefit pension payouts.

► **Rade Musulin**, chairperson of the Academy's Communications Review Committee, vice president, operations, public affairs, and reinsurance for the Florida Farm Bureau Insurance Co. in Gainesville, Fla., and immediate past chairman of the Florida Insurance Council, is the author of a recent column in the *National Underwriter* on the use of credit scoring in underwriting. Musulin's column was featured on the cover. The *National Underwriter* also encouraged readers to visit the Academy's website in an article about the new 2001 CSO mortality table.

► **Kevin Wagner**, a consulting actuary with Watson Wyatt Worldwide in Southfield, Mich., was quoted in a *Business Insurance* article about a proposal by the ERISA Industry Committee calling for the creation of a new method to calculate pension liabilities.

► **Ethan Kra**, vice chairperson of the Academy's Pension Practice Council and chief actuary for Mercer Human Resource Consulting in New York, was quoted in a *Chicago Tribune* article on stock market losses in pension plan investments.

► **Ron Seeling**, chief actuary for the California Public Employees Retirement System in Sacramento, Calif., was quoted in a *Sacramento Bee* article about the effect of stock market losses on California's major public pension system.

ON THE MOVE

► **Neil Parmenter** is the new president-elect of the Society of Actuaries (SOA). He is a member of the Academy's Pension Practice Council and a consulting actuary in Des Moines, Iowa. **Edward Robbins**, senior actuary with Allstate Life Insurance in Northbrook, Ill., and **Shirley Hwei-Chung Shao**, vice president and actuary with Prudential Insurance Co. in Newark, N.J., have been elected SOA vice presidents. Newly elected to the SOA Board of Governors are **Tom Bakos**, a member of the Academy's Council on Professionalism and chairperson of its Committee on Professional Responsibility, and a consulting actuary in Harrisburg, Pa.; **Jan Carstens**, the Academy's incoming vice president for health issues and a consulting actuary with Milliman USA in Minneapolis; **Mark Litow**, a member of the Academy's Task Force on Health Insurance Rate Filing and a consulting actuary with Milliman USA in Brookfield, Wis.; **S. Michael McLaughlin**, a partner with Ernst & Young in Chicago; and **Kathleen Wong**, vice president and actuary with AXA Financial in New York.

► **Don Hamm** has been named president of Fortis Health in Milwaukee and will become its chief executive officer in January. He was formerly senior vice president and chief financial officer.

► **J. Scott Reynolds** has been named chief actuary and administrative officer of American Wholesale Insurance Group in Charlotte, N.C. Reynolds was formerly manager of Royal & SunAlliance's finance and actuarial departments for business insurance.

► **Bruce Bassman** has been named chief actuary for Gulf Insurance Group in New York. He was formerly executive vice president for Harleysville Insurance.

► **Ari Lindner**, vice president and life actuary for ACE Tempest in Hamilton, Bermuda, has been selected to lead the company's life reinsurance operations.

► **Amy Bouska** has been appointed managing principal and co-region manager for Tillinghast Americas. Bouska was previously Tillinghast's operations manager for North America. In her new position, Bouska will continue to serve as manager of Tillinghast's Minneapolis office.

► **Mike DeKoning** has been appointed vice president and managing director, life, for Manulife Reinsurance in Toronto. DeKoning was formerly vice president for life and financial reinsurance.

► **Paul O'Connell** has been appointed chief actuary for ACE INA Holdings in Philadelphia. He was formerly a principal with PricewaterhouseCoopers in New York.

► **Mark Davis** has been appointed chief actuary of Zurich Life in Schaumburg, Ill. He was previously a principal at Tillinghast-Towers Perrin in Chicago.

New Academy Officers

The Academy's Board of Directors has approved the slate of 2003 Academy officers put forward by the nominating committee. New officers will assume their duties at the Academy's annual meeting, Oct. 29, at the Hilton and Towers Hotel in Washington. The new officers are

► **Barbara Lautzenheiser**, president-elect. Former vice president for life insurance issues and chairperson of the Academy's Life Practice Council, Lautzenheiser is principal of Lautzenheiser & Associates in Hartford, Conn. Prior to forming Lautzenheiser & Associates, she was president and chief operating officer of the Signature Group's three insurance companies in Schaumburg, Ill. Lautzenheiser previously served as president of the Society of Actuaries and was a charter member of the Actuarial Standards Board. She is trustee emeritus of the Actuarial Foundation.

► **Jan Carstens**, vice president for health issues. Carstens is a former member of the Academy's Board of Directors and former vice chairperson of the Academy's Health Practice Council. She is a consulting actuary in the Minneapolis office of Milliman USA. She will succeed Geoffrey Sandler.

► **Jan Lommele**, vice president for casualty issues. Lommele is a former member of the Academy's Board of Directors and former chairperson of the Academy's Committee on Property and Liability Financial Reporting. Lommele is a principal with and chief property casualty actuary for Deloitte & Touche in Hartford, Conn. He will succeed Steven Lehmann.

► **Robert Rietz** will continue as vice president for professionalism issues. Rietz was appointed in January to finish out the term of Henry Knowlton. A former president of the Conference of Consulting Actuaries, Rietz is a director in the human capital practice for Deloitte & Touche in Detroit.

Balancing Medical Privacy in Workers' Compensation

CASUALTY

MEDICAL PRIVACY STANDARDS released last year by the Department of Health and Human Services include provisions that limit the flow of medical information to workers' compensation insurers and benefit administrators.

In a new issue brief, *Medical Privacy in the Workers' Compensation System*, the Academy's Workers' Compensation Subcommittee argues that these provisions could raise costs for businesses and significantly delay the delivery of benefits to injured workers.

The new standards were developed as a result of the Health Insurance Portability and Accountability Act of 1996. While they don't apply directly to the workers' compensation system, the subcommittee is concerned that the medical privacy provisions don't recognize the difference in information needs between group health and workers' compensation claims payers.

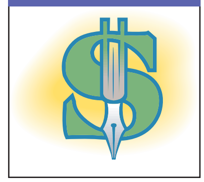
The issue brief recommends that all regulations and future legislation explicitly authorize and list permissible disclosures of individually identifiable medical information to employers and workers' compensation service providers along with restrictions on further disclosure of this information to other parties.

Nancy Treitel is chairperson of the subcommittee. The vice chairperson is Richard Hoffman. Other members are Michele Bernal, Ann Conway, Thomas DeFalco, John Herzfeld, R. Michael Lamb, Ramona Lee, Barry Llewellyn, David Mohrman, John Purple, Ezra Robinson, and Timothy Wisecarver.

To read the issue brief online, go to **www.actuary.org/pdf/casualty/privacy_aug02.pdf.**

Plotting Fair Value for Insurance Liabilities

FINANCIAL REPORTING



Adjusting for risk that reflects market price is one of the main complexities for arriving at fair value.

THE IDEA OF ACCOUNTING for financial instruments at fair value, rather than historical cost, has been discussed and debated at length. Actuarial and accounting literature abound that apply the fair value approach in theory to insurance liabilities, but these theories typically are illustrated in isolation and often ignore the underlying principles supporting the case for fair value accounting.

To address this deficiency and provide a framework of principles and approaches for fair valuation of insurance liabilities, including several specific valuation techniques, the Academy's Fair Value Work Group, chaired by Burt Jay, recently issued a monograph, *Fair Valuation of Insurance Liabilities: Principles and Methods.*

The International Accounting Standards Board has defined the fair value of a liability as the amount for which a liability could be settled between two knowledgeable, willing parties in an arms-length transaction, or specifically, the amount an enterprise would have to pay a third party to take over the liability on the balance sheet date. With this definition in mind, the monograph first analyzes the international Joint Working Group of Standard Setters' hierarchy of methods for determining fair value. The hierarchy calls for application of fair value by ideally using the market value when it is available. When market value is not available, the market value of similar, relevant instruments is used with minor modifications to reflect the differences between the instruments. Finally, if either of these scenarios is unavailable, fair valuation is determined by using a present value estimate of future cash flows, while including an adjustment for risk. As this final scenario is generally most applicable in the case of insurance liabilities, the Academy's work group expanded upon this method to include the principles that underlie present valuation and risk adjustment.

Adjusting for risk that reflects market price is one of the main complexities for arriving at fair value. With this in mind, the monograph provides theoretical background for calibrating risk adjustments to measures of the market price for risk. The monograph then demonstrates the cost-of-capital and option-pricing approaches for making such calibrations, and addresses intangible factors that affect these approaches, such as credit standing, taxes, and the limitations of technology. Following the risk adjustment theory, the heart of the monograph is a collection of specific examples of techniques for applying fair value to actual scenarios, such as interest-rate spreads, interest-sensitive liabilities, and adjusted cash flows. A comparison of fair value versus entity-specific value provides a balanced view of valuation techniques, and the degree to which credit standing should affect an entity's liabilities is also analyzed. The monograph concludes with a detailed effort to provide examples and dispel misconceptions of the impact of fair value on the emergence of earnings.

Recently, the Financial Accounting Standards Board (FASB) has accelerated its efforts to begin examining how it will apply fair valuation to financial instruments. As part of these efforts, FASB will determine if a proposal to modify fair value standards is necessary. In light of this increased focus by FASB and other groups on the issue of fair value accounting, and given the demand for clarity and accuracy that now faces the accounting community, the Fair Value Working Group's monograph is both timely and insightful. To read it online, go to www.actuary.org/pdf/finreport/fairval_sept02.pdf.

—ETHAN SONNICHSEN

, *continued from Page 1*

erated more than 100 requests for pension assistance, most of them for help in simple tasks such as verifying pension amounts or providing understandable explanations of different payout options, including lump sum payments, annuities, or lifetime benefits, says Heather Jerbi, the Academy's pension policy analyst.

This is typical, says Parks. Although some of the questions PAL volunteers must field are complicated, most are ones that can be easily answered by any pension actuary. "Defined benefit plans are my cup of tea," Parks explains. "All the questions seem to be ones I can deal with readily."

Parks says he enjoys working with the workers and retirees who contact the PAL program for assistance. But there's more. "Actuaries for many years have been voted the No. 1 job in the country, and they still are in the top five," Parks explains. "My particular philosophy is that this country and this economy have been pretty good to us, and we owe something back. Hopefully, we can do some good."

Interested in becoming a PAL volunteer? You can sign up online at www.actuary.org/palform.htm. If you need more information, contact Kasha Shelton, the Academy's administrative/legislative manager (Shelton@actuary.org; 202-223-8196).

NAIC Notes

CELEBRATING THE COMPLETION OF SEVERAL YEARS' WORK, the Life Practice Council gave a thank-you dinner for CSO Task Force members who were in New Orleans for the NAIC's fall meeting.

Joining task force members for the French Quarter dinner was Michael Batte, chairperson of the NAIC's Life and Health Actuarial Task Force (LHATF). The CSO Task Force, chaired by Fay Albert, presented its final report on the 2001 CSO mortality tables to LHATF this summer. The task force followed up that report with another, presented at the fall meeting, noting that the tables create no material nonforfeiture or tax problems and recommending their adoption by the NAIC. The task force developed the new CSO tables from a basic valuation table developed by the Society of Actuaries.

At the fall meeting, Academy members reported orally on a number of ongoing projects for the NAIC. Speaking to LHATF, Dave Sandberg, vice chairperson of the Life Practice Council, presented a preliminary report on current insurance and banking solvency structures on the international, federal, and state levels.

Also, Walt Wright, chairperson of the Casualty Practice Council's Risk Classification Subcommittee, spoke to the NAIC's Credit Scoring Working Group about the subcommittee's project to review previous studies on credit scoring, recommend best practices, and offer suggestions to the NAIC on undertaking its own study of the issue. And the Academy's Life Capital Adequacy group updated the NAIC's Life Risk-Based Capital Working Group on several projects it has undertaken.

To view reports to the NAIC online, go to **www.actuary.org/naic.htm.**

, continued from Page 1

including whether employees can carry over from year to year any unused portion of the health care account balances they receive from their employer, and whether they forfeit any such balances when they retire or leave. Employers considering HRA plans "need to evaluate the cost right now — but with rollover provisions, they need to understand the long-term implications," he said.

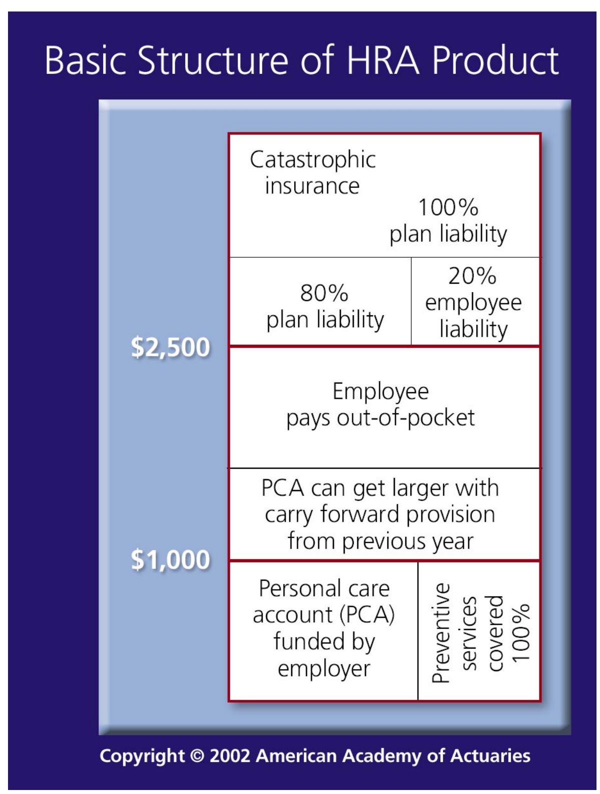
Using a comparative cost analysis between a typical PPO and an HRA benefit, Greenwood demonstrated to the briefing audience that employers' costs would be higher if unpaid health balances were paid to employees when they left or retired.

Similarly, workers who required few health services would incur lower out-of-pocket expenses under an HRA plan, compared with a PPO plan, than workers (or families) whose health care costs were higher. Since most HRA plans are now being offered alongside HMOs, PPOs, and individual plans, there is a significant risk of adverse selection, Greenwood said.

More than 60 people attended the luncheon briefing, which was organized by the Academy's Health Practice Council.

To view slides from the briefing, go to **www.actuary.org/briefings/dch_0902.htm.**

—LINDA MALLON



Social Security Reform

Should Individual Accounts Be Voluntary?

THE DEBATE OVER SOCIAL SECURITY has included discussion of numerous proposals to create individual accounts as part of Social Security. The current Social Security program is mandatory and has the same provisions for the vast majority of American workers; however, under many reform proposals, participation in the individual accounts would be voluntary. In other words, each participant would choose whether to establish and to contribute to such an account. In most such proposals seen to date, the choice would be one-time and irrevocable.

While allowing participants to make such a choice has obvious attraction, both in terms of participant satisfaction and as an economic matter, allowing participants to make this important decision also raises a number of concerns:

- Does offering a choice increase overall program costs?
- Would participants be sufficiently knowledgeable about both the existing (traditional) and new plans to make informed decisions?
- What benefits should participants get if they choose to remain in the traditional plan, particularly if it is not financially sound?
- Could participants ever change their enrollment decisions?
- Should the government guarantee the greater of benefits under the traditional and new plans?

The Academy's Social Insurance Committee has written an issue brief, *Social Security Reform: Voluntary or Mandatory Individual Accounts?*, that addresses these and other issues. To read it online, go to **www.actuary.org/pdf/socialsecurity/accounts_sept02.pdf.**

The committee also has updated an earlier issue brief, *Automatic Adjustments to Maintain Social Security's Long-Range Actuarial Balance*. To read it online, go to **www.actuary.org/pdf/socialsecurity/automatic_0902.pdf.**

Letter TO THE *Editor*

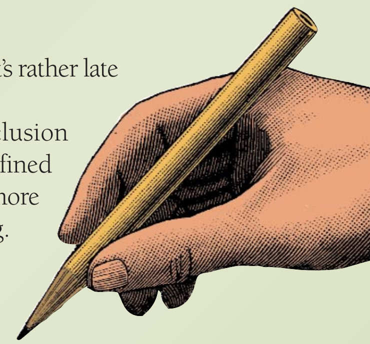
DC Health Plans: Expanding Choice or Shifting Cost?

I READ THE ARTICLE "DC Health Plans: Evolving Choices" in the August *Actuarial Update*, along with the issue brief, *Understanding Defined Contribution Health Plans*, and I was disappointed. There are few facts, tenuous conclusions, and some outright fallacies.

The issue brief states that consumers want more choice. This concept has been misleading American business to ridiculous results for years. It's how we've wound up with 300 varieties of breakfast cereal. The consumer really wants more meaningful choice. Simply heaping more options on the consumer is not value but annoyance. In addition, it can be argued that more choice equals more cost for the administrator. The basis for this argument is a reduced economy of scale and user antiselection. The extreme right on the DC continuum is an individual market, which will never be cost competitive with group insurance.

The issue brief states that it is not yet proven whether DC health plans will influence market trends. Does this mean that the rest is speculation? In particular, will consumer involvement improve the quality of care? It's not hard to envision scenarios where the consumer forgoes preventative or maintenance care because his spending account has run out. Managed care creates a second tier of decision-making. Does consumer involvement create a third tier? Does provider malpractice liability go down when the consumer is more involved in the decision-making?

The issue brief mentions double-digit growth in health care costs as a significant market influence. But the underlying drivers of that growth aren't discussed. For example, two drivers are the growing aging population and unhealthy lifestyles. It's hard to see any DC impact on aging. And although employee education can have an impact on lifestyle, the intervention must occur far in advance of decisions on the delivery of health care. Once diabetes or a heart condition has been diagnosed, it's rather late to address the obesity that caused it.



I can draw one substantial conclusion from the article and the issue brief. Defined contribution health plans are nothing more than disguised employee cost-shifting.

Tony Batory
Hartford, Conn.

Jim Murphy, chairperson of the Defined Contribution Health Plans Work Group, replies:

I WOULD LIKE TO THANK MR. BATORY for his opinions on DC health plans. I would also like to emphasize that the Academy's issue brief, *Understanding Defined Contribution Health Plans* (**www.actuary.org/pdf/health/dc_jun02.pdf**), was intended merely as an introduction to the concept of DC health plans and to the issues that are driving interest in it.

There are many concerns about the concept, particularly in its most novel variations, and about related consumer-driven plans. In the future, the work group hopes to identify and address many of these concerns so that policy-makers and the public are in a better position to evaluate DC health plans and other new ideas arising from efforts to deal with the challenge of financing health care in this country.

In keeping with its nonpartisan status, the Academy's role in any debate is purely educational and limited to providing clear and objective actuarial analysis.

We welcome your opinion and seek others, whether in the form of articles or letters to the editor. Have an idea for a story? Want to sound off on a relevant topic? Please call Editor Linda Mallon (202-785-7876) or drop her an e-mail (mallon@actuary.org) with your thoughts. We reserve the right to select and edit what we publish.

The Actuarial Update

ASSOCIATE EDITORS
Michael Braunstein
William Carroll
Ronald Gebhardtsbauer
Rade Musulin
Peter Perkins
Adam Reese

EDITOR
Linda Mallon
(editor@actuary.org)

DESIGN AND PRODUCTION
BonoTom Studio Inc.

PRODUCTION ASSISTANT
Becky Horst

American Academy of Actuaries

PRESIDENT
Daniel McCarthy

PRESIDENT-ELECT
Robert Anker

SECRETARY-TREASURER
Peter Perkins

VICE PRESIDENTS
Steven Lehmann
John Parks
Stephen Preston
Robert Rietz
Geoffrey Sandler
Patricia Teufel

EXECUTIVE DIRECTOR
Richard Lawson

DIRECTOR OF COMMUNICATIONS
Noel Card

ASSISTANT DIRECTOR FOR PUBLICATIONS
Steven Sullivan

MANAGING EDITOR, NEW MEDIA
Anne Richardson

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

Academy Annual Meeting

October 29, 2002
Washington

The Academy's 2002 Annual Meeting will be held Oct. 29 at the Hilton and Towers Hotel in Washington, in conjunction with the 2002 ASPA Annual Conference. Nearly 500 Academy members are expected to attend.

AGENDA

American Academy of Actuaries Annual Meeting Luncheon — 12:00 pm - 2:00 pm

The luncheon will feature the presentation of the 2002 Jarvis Farley Service Award and the installation of Robert A. Anker as the Academy's new president, as well as the election of new members to the Board of Directors.

Attorney Ian D. Volner, a partner with the law firm of Venable Baetjer Howard & Civiletti, will give the keynote address on "Professionalism and Public Policy in the post-Enron Era."

Professionalism Seminar: "Cases of Not Quite Right" — 2:00 pm - 3:15 pm

The topic of the professionalism session will be performing actuarial work with data that are not quite reliable.

REGISTRATION

The fee for the Academy Annual Meeting is included in the 2002 ASPA Annual Conference fee. Academy members who are not registered for the ASPA conference may register using the form below, or online at www.actuary.org. The registration fee is $50 per person, which includes admission to the luncheon and the professionalism session.

For information about ASPA's Annual Conference, including registration fees, lodging information, and online registration, go to www.aspa.org, or call the ASPA meetings department at 703-516-9300.

For further information about the Academy Annual Meeting, contact the Academy's meeting planner, Denise Winston, at 202-223-8196 or Winston@actuary.org.

AMERICAN ACADEMY *of* ACTUARIES

ANNUAL MEETING REGISTRATION FORM

(One person per form—Please print clearly) **Register online at www.actuary.org**

Name ____________________ Badge (nickname) ____________

Company ____________________

Company Address ____________________

City ____________________ State ____________ Zip ____________

Work Phone ____________ Work Fax ____________ e-mail ____________

I will attend: ❑ Luncheon ❑ Professionalism Session **Special Meal:** ❑ Vegetarian ❑ Kosher

Payment of registration fee of $50.00 by:

❑ Enclosed check made payable to the "American Academy of Actuaries"

❑ Visa ❑ MasterCard ❑ AMEX Cardholder name ____________________

Card# ____________________ Expiration Date ____________

Signature ____________________ Date ____________

REGISTRATION FORMS DUE BY OCT. 24, 2002

FAX: **202-872-1948** MAIL: **Academy Annual Meeting, 1100 17th St. N.W., 7th Floor, Washington, D.C. 20036**