

## Part of a Complete Breakfast

BY TOM WILDSMITH PRESIDENT, AMERICAN ACADEMY OF ACTUARIES

I LOVED WATCHING SATURDAY MORNING CARTOONS when I was

a kid. The commercials were almost as entertaining as the shows. As I remember it, the typical Saturday morning advertisement was for breakfast cereal. It was a golden era for children's cereals. While the sensible cereals of the early 20th century were still available, manufacturers had discovered that they could include startling colors, flavors unknown to nature, and—my personal favorite—marshmallows. They were great fun, and always made me feel like I was getting away with something.

How else could you get to eat marshmallows for breakfast? Every cereal had its own cartoon mascot, and the ads focused on what appealed most to children—the colors, the flavors, and the marshmallows.

But all of the ads had a strange little twist at the end. They would cut to a small bowl of cereal that was surrounded by other things—a glass of milk, a glass of juice, a slice of toast with jam, an egg, perhaps grapefruit, a couple of slices of bacon, or even a cup of coffee. The details varied, but it was always a surprising amount and variety of food. Then the announcer would say, "...part of a complete breakfast!" Even as a kid, I sometimes wondered why you



would want cereal if you could have fresh eggs, bacon, and toast.

I suspect that cereal companies included this disclaimer for legal reasons. But there was an important message in it for parents. The point of breakfast isn't cereal, or even marshmallows—it's nutrition. We feed our children breakfast to ensure they get the nutrition they need—and that takes more than just cereal.

Continuing education (CE) is a bit like cereal—the point isn't simply to rack up hours, but to ensure that we, as actuaries, are competent at what we do. CE is neither

an end in itself, nor all that we need. CE doesn't exist in a vacuum; just as cereal is only one part of a complete breakfast, our CE requirements are only one element in ensuring the competence of actuaries.

What else do I need to be a competent and responsible working actuary? A basic actuarial education is necessary to ensure that I'm familiar with the fundamental tools and techniques that are relevant to my practice area. Work experience, to ensure that I have a reasonable level of practical competence. I must also be familiar with the laws, regulations, and standards of practice that apply in my

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## Four Candidates Nominated for Academy Board of Directors

THE ACADEMY'S NOMINATING COMMITTEE presented a slate of four candidates for open regular director positions on the Academy Board of Directors.

The nominees are April Choi, Bob Rietz, Lisa Slotznick, and Stu Mathewson. Choi, Rietz, and Slotznick were nominated to serve three-year terms expiring in 2019, and Mathewson to serve a one-year term to fill the spot being vacated in November by Joeff Williams, who was nominated earlier this year to become vice president of professionalism.



Choi



Rietz



Slotznick



Mathewson

Choi has served on many health care committees and work groups since 2004, including Medicare/Medicaid, the Risk Sharing Subcom-

mittee, and the Health Practice International Committee. Mathewson, a member of the Casualty Practice

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Volunteer Survey Coming in August

## AUGUST

**25** Webinar: [Exploring Global Health Care Cost Drivers: Hong Kong and Taiwan](#)

## SEPTEMBER

**15** Webinar: Post-NAIC Update

**18-20** [Casualty Loss Reserve Seminar \(CLRS\) & Workshops](#), Chicago

**21-23** [PBR Boot Camp—Basic Training and Beyond](#), Orlando, Fla.

## OCTOBER

**5** Webinar: Exploring Global Health Care Cost Drivers: France and UK.

## NOVEMBER

**3-4** [Annual Meeting and Public Policy Forum](#), Washington, D.C.

**13-17** [Life and Health Qualifications Seminar](#), Arlington, Va.

## DECEMBER

**6-7** [2016 Seminar on P/C Effective Loss Reserve Opinions](#), Chicago

For a list of all previous and upcoming Academy events, please visit the Academy's [Calendar of Events](#).

To continue receiving the *Update* and other Academy publications on time, make sure the Academy has your correct contact information.

Academy members can update their member profile at the member login page on the Academy [website](#).

# Academy NEWS

## PBGC, CBO Directors; Oregon Insurance Commissioner to Speak at Annual Meeting



Reeder



Hall



Cali

**TOM REEDER**, director of the Pension Benefit Guaranty Corp., will kick off the Academy's [Annual Meeting and Public Policy Forum](#) as the opening session keynote speaker on Nov. 3. Keith Hall, director of the Congressional Budget Office, will speak on Friday, Nov. 4, on the long-term budgetary outlook of health, retirement, and other programs important to the actuarial profession.

In addition to Reeder and Hall, Oregon Insurance Commissioner Laura Cali will speak in a plenary session. Cali, an actuary and Academy member, has been her state's commissioner since 2013 and is chairperson of the NAIC's Big Data (D) Working Group and vice chair of the Auto Insurance (C/D) Working Group. Cali—who became the youngest insurance commissioner in the country in 2013—will provide perspective on the insurance implications of Big Data, emerging issues at the state regulatory level, and her unique views as an actuary/regulator.

Former U.S. Sen. Christopher Dodd, principal sponsor of the Dodd-Frank financial reform law, will give the Nov. 3 luncheon keynote address.

Set for Nov. 3-4 in Washington, just days before the presidential and congressional elections, the meeting and forum will offer many practice-specific and cross-practice sessions on topics related to your actuarial area of practice and offer ample opportunities to network.

Subject-matter experts who will be speaking or leading sessions include federal agency representatives, leaders of the NAIC and the U.S. actuarial

profession, and other prominent stakeholders.

**Register now and save.** [Early registration discounted rates](#) end **Monday, Aug. 1.**

Breakout sessions will:

- ➔ Examine multiemployer pension plans; explore ways to strengthen retirement security; and study emerging pension-plan designs.
- ➔ Offer updates on Affordable Care Act implementation; examine the new Medicare Access and CHIP Reauthorization Act of 2015 and what it will mean for health care delivery; and explore the growth in spending on prescription drugs and options for reducing those costs.
- ➔ Look at future legislative changes to the National Flood Insurance Program, including expansion of the private market; explore the multiple layers of cyber risk (i.e., enterprise risk, explicit coverage, and latent exposure); and analyze how Big Data will affect auto insurance.
- ➔ Include experts' views on ways to manage longevity risk for both insurers and retirees; analyze the information used in life underwriting in light of genetic testing and the availability of certain data; and examine lessons learned from the implementation of own-risk and solvency assessments.

The renowned political satire troupe Capitol Steps will perform at the Nov. 3 dinner, which will provide a timely, irreverent musical take on the presidential candidates and the political landscape in Washington. The dinner is included in the two-day registration fee, and dinner tickets can also be purchased separately. ▲

# Academy NEWS Briefs

## Election Guides Released With New Analysis of Health Policy Issues

**AS THE NATION LOOKS AHEAD** to the November presidential and congressional elections, the Academy is continuing to update its offering of election guides in order to help voters become better informed about major public policy issues. These guides, collected on the “[2016: Making Issues Count](#)” page, offer information on select campaign topics on which actuaries have expertise.

This month, the Academy released three new election guides:

- ➔ [Single-Payer System](#)
- ➔ [High-Performance Networks](#)
- ➔ [Medicare Buy-In Option](#)

These three guides supplement the existing series, which also covers [Social Security](#), [long-term care](#), [lifetime income](#), and [climate risk](#). ▲

## Recently Released

**THE JULY/AUGUST ISSUE** of [Contingencies](#)’ cover story, “Step by Step,” offers the authors’ views on practical reform for Social Security that aligns retirement age with income. Other features investigate risk management in moviemaking, and applying game theory to assess the impact of integrated health care delivery models. Also, a new department examines the structures of actuarial professionalism, beginning with the Code of Professional Conduct.

The July issue of [HealthCheck](#) covers the Medicare Subcommittee’s issue brief on Medicare’s financial condition, the Academy’s webinar looking at principle-based reserve modeling for long-term care insurance, and outlines recent legislative and regulatory updates.

The summer issue of [PBA Perspectives](#) covers the NAIC’s June affirmation that legislation adopted by 45 states was “substantially similar” to the NAIC’s model Standard Valuation Law, and includes a preview of September’s [PBR Boot Camp](#). ▲

## Public Employment Opportunities Posting Policy

**PUBLIC SERVICE IS A REWARDING CAREER PATH**, and the Academy has long supported government employers who are seeking to hire qualified actuaries. Upon request, the Academy will share employment opportunities with its membership at the request of policymakers and regulatory bodies through *This Week*, *Actuarial Update*, and via our regular job posts at [contingencies.org](#). Please visit the Academy’s “[Public Employment Opportunity Posting Policy](#)” page for more information on how to submit a request. ▲

### IN THE NEWS

A *USA Today* [story](#) on retirement planning cited the widely praised Academy/SOA [Actuaries Longevity Illustrator](#) as a useful tool to help people understand longevity risk and plan for retirement. The *Arizona Republic*, *Detroit Free Press*, *Reno Gazette-Journal*, and almost 100 other outlets across the country ran the story. The [American Association of Individual Investors](#) and the nationally syndicated TV host [Clark Howard](#) also published articles about the illustrator.

A *Bloomberg / Washington Post* story looking at how U.S.

life insurers have adjusted their asset risk profiles given the current low-interest-rate environment cites the C1 Work Group’s [report](#) on investment risk factors for fixed-income assets in the NAIC’s Life Risk-Based Capital formula. The story is available [Yahoo Finance](#) and other websites.

A *Motley Fool* [column](#) featured in *Fox Business*, the *Lincoln Journal Star* (Neb.), and other media outlets, references the Academy’s analysis of the effect of eliminating the taxable maximum limit on annual earned income on the long-term financial outlook

of Social Security. Analysts on KNSS radio’s (Wichita, Kan.) “[Moneytracker](#)” talk show also cited the analysis. (The Academy is mentioned at the 8-minute mark.)

A subscriber-only *Bloomberg BNA* story features Senior Health Fellow Cori Uccello’s comments on factors driving 2017 health premiums based on the Individual and Small Group Markets Committee’s May [issue brief](#). The remarks are from the July 15 Alliance for Health Reform panel discussion, “[Trends in Coverage and Affordability on the Affordable Care Act \(ACA\)](#)



[Marketplaces](#).” A separate *Bloomberg BNA* [story](#) cites Risk Sharing Subcommittee Chairperson Barb Klever discussing the subcommittee’s analysis of the ACA’s permanent risk adjustment program.

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# Academy NEWS Briefs

## ← NEWS, FROM PAGE 3

The Academy's analysis of 2016 and 2017 health care cost drivers was cited during a U.S. House Ways and Means Committee hearing on [rising health insurance premiums](#) in independent testimony by the [Council for Affordable Health Coverage](#) and [Covered California](#), the state's official ACA marketplace.

[Capital Public Radio, California Broker, KQED Public Media](#), the [Sierra Sun Times](#), and Sacramento television station [KXTV](#) cited statistics from the health cost-driver issue brief in coverage of 2017 rates recently announced by Covered California.

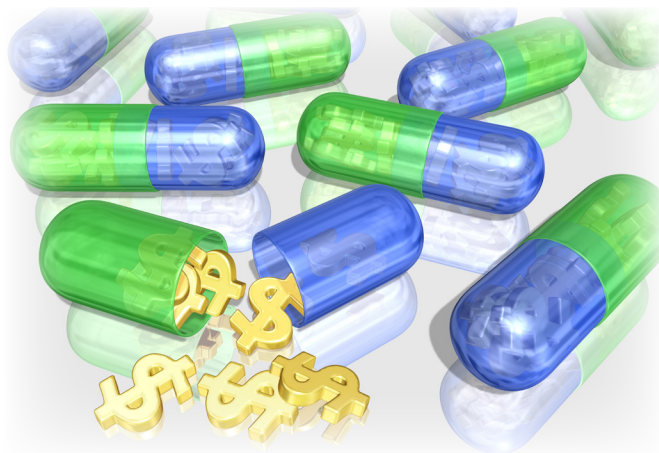
[HealthPayerIntelligence](#) interviewed Michael Thompson, chairperson of the Academy's Medicare Subcommittee, for an actuarial perspective on the challenges facing Medicare's long-term sustainability. His

comments expand on the Academy's [issue brief Medicare's Financial Condition: Beyond Actuarial Balance](#), released in June after the Medicare Trustees Report was made public.

A separate [HealthPayerIntelligence story](#) examining the Centers for Medicare & Medicaid Services' Office of the Actuary report on projected health care spending rates from 2015 to 2025 also [quotes](#) Thompson.

The Center on Budget and Policy Priorities [report](#), *What the 2016 Trustees' Report Shows About Social Security*, cited the Academy's previous work on Social Security financing.

A [position paper](#) by the American College of Physicians that addresses the rising cost of prescription drugs cited data from the Academy webinar, "[National Health Spending Projections From CMS](#)."



The Academy was mentioned in a [Repairer Driven News](#) story on the Treasury Department's announcement of the Federal Insurance Office's methodology for monitoring the affordability of auto insurance.

The Academy's issue briefs analyzing the 2016 Medicare and Social Security trustees' reports were posted in Benefitslink.com's [Health & Welfare Plans Newsletter](#) and [Retirement Plans Newsletter](#).

Benefitslink.com also [featured](#) the Pension Committee's [comment letter](#) on the IRS's decision to limit pension actuaries' interaction with IRS actuaries and other experienced employee-benefits personnel.

A 2012 Academy analysis of means testing for Social Security is cited in a National Bureau of Economic Research working paper, "[Distributional Effects of Means Testing Social Security: Income Versus Wealth](#)." ▲

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**EARLY REGISTRATION  
ENDS AUGUST 1**

**2016 ANNUAL MEETING AND PUBLIC POLICY FORUM**  
NOVEMBER 3-4, 2016 ★ CAPITAL HILTON WASHINGTON, D.C.

WWW.ACTUARY.ORG

### *From Zero to 1: Principles Behind Principle-Based Actuarial Standards of Practice*

BY MARYELLEN COGGINS, CHAIRPERSON, ACTUARIAL STANDARDS BOARD

Actuarial Standard of Practice (ASOP) No. 1, [\*Introductory Actuarial Standard of Practice\*](#), serves as a guide to the rest of the ASOPs. Issued in 2013—nearly a quarter-century after the founding of the Actuarial Standards Board (ASB)—ASOP No. 1 reflects principles and terminology used by the ASB to further actuarial professional practice in the United States.

ASOP No. 1 did not start out as a standard of practice. Its precursor, published in 1989 as a simple preface to the ASOPs, provided a high-level, wide-ranging overview of the principles of actuarial professionalism. (This overview was incorporated into the excellent paper published by the Council on Professionalism, [\*Structural Framework of U.S. Actuarial Professionalism\*](#).) In 2004, the preface was replaced with a formal *Introduction to the Actuarial Standards of Practice* to offer actuaries more specific “guidance on the ASB’s operations, the content and format of standards, and the ASB’s intent with respect to certain terms that appear frequently in the text of the standards.” With these changes, the 2004 *Introduction* became not only a “helpful addition to the standards literature,” but was also “intended by the ASB to be part of the standards and to carry the same weight and authority as the ASOPs themselves.” The *Introduction* thus became known informally within the actuarial community as “ASOP Zero.”

ASOP Zero documented important features of the ASOPs and the standard-setting process. Critical among these was that, since its inception, the ASB had often described ASOPs as reflective of “generally accepted practice.” The 2004 *Introduction* defined “generally accepted” as “practices that are broadly accepted by qualified actuaries as *appropriate* [emphasis added] to the proper performance of a particular type of professional assignment or aspect of professional practice.”

At the time the 2004 *Introduction* was adopted, the ASB noted that it had heard from a group of commentators who had requested a public hearing on whether more rigorous standards should be encouraged. The hearing took place in 2006, raising the ASB’s awareness of the actuarial community’s understanding of the board’s approach to standard-setting.

Following up on continued interest about the level and purpose of ASOPs, in 2008 the ASB decided to revise the *Introduction* to clarify the language used to describe its consistent—but apparently not clearly understood—approach to standard-setting. Contrary to what some in the profession believed, the ASB had never attempted to simply codify common practices, but rather



had always sought to identify appropriate practice. In the introduction to the 2008 edition of ASOP Zero, the ASB noted:

“Apparently, some actuaries have interpreted the prior language to indicate that the Board merely codifies (or catalogs) current practices when developing an ASOP. The actual process in developing ASOPs goes well beyond a simple codification of practices.”

The revised *Introduction* explained that “[a]fter reviewing the current range of practices, the ASB determines whether it is appropriate under the circumstances to restrict or elevate practice to serve the public interest, to reflect advancements in actuarial science, or for other reasons.” The ASB explained that this was “the process the Board *has been following* [emphasis

added] to develop ASOPs.”

In 2013, the ASB again extensively revised and elevated the status of the *Introduction*, issuing it as “ASOP No. 1” and renumbering subsequent ASOPs. The newly numbered ASOP No. 1 reinforced the basic philosophy that ASOPs are principle-based. The actuarial profession routinely deals with new problems and unique situations given the complex circumstances encountered in real life and the rapid pace of technological change. As a result, actuarial practice is wide ranging, making it “necessary for standards of practice to leave wide discretion for the exercise of individual judgment by the practicing actuary.” Since its creation in 1989, the ASB has developed standards that provide the actuary with “an analytical framework for exercising professional judgment, and identify factors that the actuary should typically consider when rendering a particular type of actuarial service.”

ASOP No. 1 is no longer simply an introduction or preface to the ASOPs. Over the course of its lifetime, the introductory ASOP has gone from being a note of historical interest to being an actuarial standard of practice. It establishes a roadmap for interpreting the ASOPs and provides important guidance for the exercise of professional judgment in applying all other ASOPs. By doing so, it assists the U.S. actuarial profession to achieve a key purpose of the Code of Professional Conduct, namely, “to require Actuaries to adhere to high standards of ... practice ... thereby supporting the actuarial profession in fulfilling its responsibility to the public.”

In next month’s “Professionalism Counts,” I will explore some of the features of what ASOP No. 1 refers to as the “analytical framework for exercising professional judgment.” ▲



## ASB Approves Second Exposure Draft on Proposed Risk ASOP, Third Exposure Draft on Proposed Modeling ASOP

**T**HE ACTUARIAL STANDARDS BOARD (ASB) approved a second exposure draft of a proposed new actuarial standard of practice (ASOP) titled *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*.

Key changes to the second exposure draft include expanding the scope of the proposed ASOP from applying only to actuaries when performing a funding valuation of a pension plan to applying also to actuaries when performing a pricing valuation of a proposed pension plan change that would, in the actuary's professional judgment, significantly change the types or levels of risks of the pension plan. In addition to other modifications, the scope also was modified to exclude actuarial services performed in connection with applications for benefit suspensions under the Multiemployer Pension Relief Act of 2014.

The ASB also approved a third exposure draft of a proposed new ASOP titled *Modeling*. Among the several modifications to the draft, key changes include narrowing the scope but, within that scope, making the guidance less subject to professional judgment as to its applicability; clarifying the definitions for "model," "data," and "model run"; and clarifying guidance with respect to using models designed or built by others.

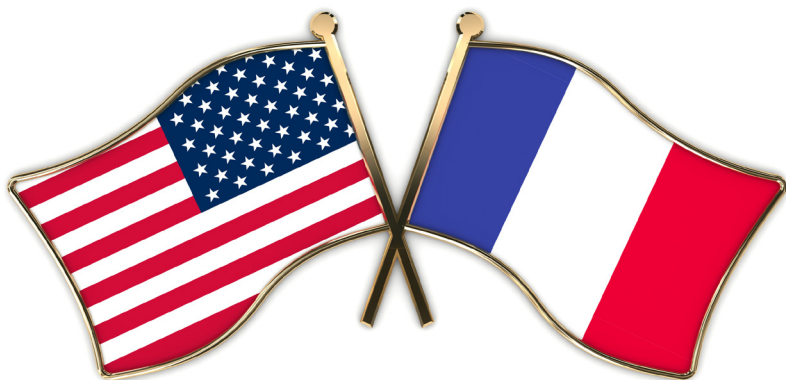
The [comment deadline](#) for both exposure drafts is Oct. 31; information on how to submit comments can be found in the drafts. ▲

### Exposure Draft of Proposed ASOP No. 24 Revision

The ASB also approved an exposure draft of a proposed revision of ASOP No. 24, [Compliance with the NAIC Life Insurance Illustrations Model Regulation](#). ASOP No. 24 was revised in 2007 to be consistent with the current ASOP format and to update and reflect current, appropriate actuarial practices with respect to illustrations prepared in compliance with the Life Insurance Illustrations Model Regulation.

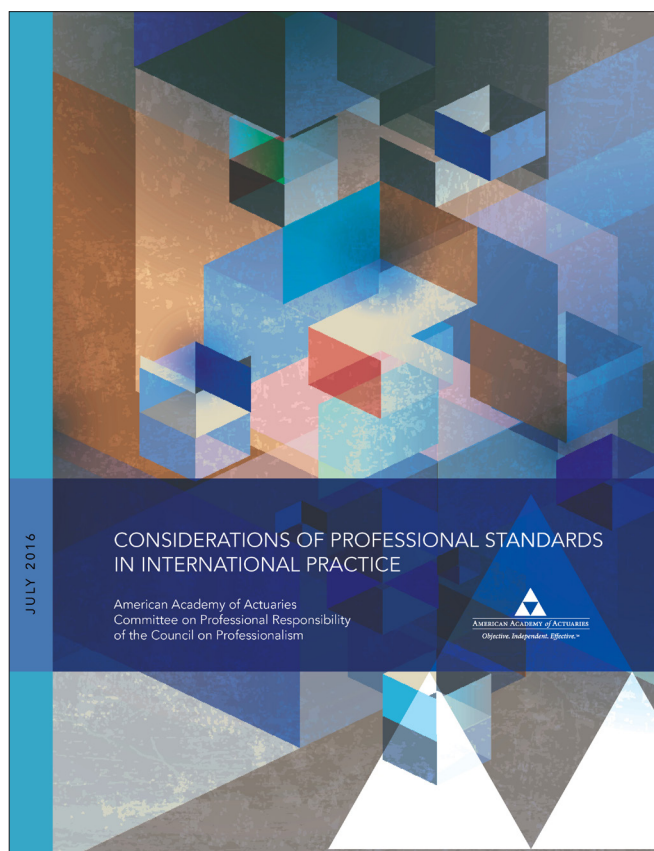
The NAIC released Actuarial Guideline 49 (AG 49) in 2015 to clarify certain requirements of the model related to policies with index-based interest credits, and the ASOP is being revised to reflect changes in guidance as a result of AG 49 and, in particular, to add clarification regarding requirements to prevent lapse-supported illustrations. The [comment deadline](#) for the exposure draft is Sept. 30.

## COPR Releases Paper on Professional Standards in International Practice

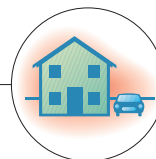


**T**HE COMMITTEE ON PROFESSIONAL RESPONSIBILITY (COPR) of the Academy's Council on Professionalism has released a new discussion paper, [Considerations of Professional Standards in International Practice](#).

As actuarial work crosses national borders, actuaries are becoming exposed to a variety of laws and professional standards from different jurisdictions. Consequently, questions frequently arise about the professional requirements that apply in international situations. This discussion paper identifies and explores some of these issues. ▲







## Volunteers Wanted for New Travel Insurance Task Force

**T**HE CASUALTY PRACTICE COUNCIL (CPC) is seeking a few good volunteers for a new task force to look at the issue of travel insurance. Travel insurance is a policy area that has potential implications for a number of the Academy's practice areas and will be a growing subject of interest at the NAIC. As such, the

CPC is recruiting actuaries who have experience with or an interest in the property/casualty aspects of travel insurance, as well as health insurance components including overseas health insurance and/or emergency medical evacuation coverage. Interested volunteers should contact Marc Rosenberg, the Academy's senior casualty analyst, at [rosenberg@actuary.org](mailto:rosenberg@actuary.org). ▲

## Capitol Forum Webinar Looks at Emerging Issue of Driverless Cars

**W**ITH DRIVERLESS CARS becoming more of a reality, the Academy hosted a July 27 [Capitol Forum webinar](#) that looked at the technological, safety, and insurance aspects of autonomous vehicles and was attended by about 150 registrants.

Hosted by Roosevelt Mosley, a member of the Academy's Automobile Insurance Committee, the two-person panel included Cem Hatipoglu, director of the National Highway Safety Traffic Administration's Office of Vehicle Crash Avoidance and Electronic Controls Research, and Brian Soublet, deputy administrator and general counsel of the California Department of Motor Vehicles.

While states are not typically involved in regulating vehicle safety systems, beginning in 2011 in Florida, state legislators began

adopting statutes and regulations that called for the testing and deployment of automated vehicles on public roads, Soublet noted.

Since then, four states and the District of Columbia have enacted laws governing the testing and deployment of autonomous vehicles on public roads, several states have attempted to pass legislation, and others hold the position that existing laws do not prohibit testing or operation of autonomous vehicles.

He said that when working as an attorney in the California Department of Insurance in the mid-1990s, he worked in auto-rating factor regulations. "I'm still fascinated by the issues related to auto insurance," Soublet said. "When I look to a future with autonomous vehicles and their impact on insurance, I see questions like 'Will

SEE **DRIVERLESS**, PAGE 12

# CASUALTY LOSS RESERVE SEMINAR

**REGISTER NOW**

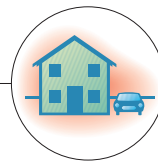
**SEPTEMBER 18-20  
CHICAGO**

The 2016 Casualty Loss Reserve Seminar (CLRS) and Workshops, jointly sponsored by the American Academy of Actuaries and the Casualty Actuarial Society, will be held Sept. 18-20 in Chicago. Plan to attend the CLRS to stay current with industry developments and learn from expert analysis of innovation in reserving.

For more information and to register, visit the CLRS website [www.casact.org/clrs](http://www.casact.org/clrs).

  
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## COPLFR Offers Suggestions on NAIC Instructions for International Insurers

**T**HE COMMITTEE ON PROPERTY AND LIABILITY FINANCIAL REPORTING (COPLFR) sent a [comment letter](#) to the NAIC noting certain inconsistencies in the instructions for certification of loss reserves for international insurers.

Several documents on the NAIC's Surplus Lines Working Group webpage relate to "annual filings for companies or Lloyd's syndicates subject to regulation as alien insurers," the letter notes, but there is a disparity between the instructions for the

"Company Annual Filings" document and the "Lloyd's Annual Filings" document.

COPLFR recommends modifying the "Company Annual Filing" document to be consistent with the language in the "Lloyd's Annual Filing" instructions, noting further that such a change would make all the instructions consistent with language in Actuarial Standard of Practice (ASOP) No. 36, [Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves](#). ▲

## Committees Send Comments on SEC S-K Disclosure Requirement

**C**OPLFR and the Financial Reporting Committee sent a [comment letter](#) to the Securities and Exchange Commission on its concept release on the modernization of certain disclosure requirements in Regulation S-K.

The comments specifically address Securities Act Industry

Guide 6, *Disclosures Concerning Unpaid Claims and Claim Adjustment Expenses of Property-Casualty Insurance Underwriters*, and whether to codify the Guide 6 disclosures regarding investment and voting decisions in Regulation S-K. ▲

# 2016 Seminar on Effective P/C Loss Reserve Opinions



**DECEMBER 6-7, 2016**

**HILTON CHICAGO O'HARE AIRPORT | ACTUARY.ORG**

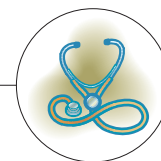
**EARLY REGISTRATION ENDS AUGUST 31**

# CHICAGO

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## Academy Provides Additional Perspective on 2017 Premium Drivers

**T**HIS MONTH, the Academy continued to provide perspective on 2017 health premium drivers. Senior Health Fellow Cori Uccello and Karen Bender, chairperson of the Individual and Small Group Markets Committee, [submitted testimony](#) on the general factors underlying premium rate setting and the major components driving premium changes for 2017 under the ACA to a U.S. House Ways and Means Committee hearing on rising health care premiums.

The testimony notes that premiums reflect many factors, because actuaries develop proposed premiums based on projected medical claims and administrative costs for pools of individuals or groups with insurance. Factors include the composition of the risk pool, projected medical costs, other premium components, and laws and regulations.

### Alliance Health Care Briefing

Uccello also spoke July 15 at the Alliance for Health Reform's [Capitol Hill briefing](#), "Trends in Coverage and Affordability on the Afford-



Uccello, at July 15 briefing

able Care Act Marketplaces," giving an overview of factors driving 2017 health premiums.

Uccello's presentation highlighted findings from the Individual and Small Group Markets Committee's [issue brief](#), released in May. The drivers that the committee looked at include medical trend, the sunset of the reinsurance program, and changes in the risk pool composition and insurer assumptions. She also noted that average premium changes being reported mask differences in premium changes across states, plans, and consumers.

When discussing the end of the ACA's temporary reinsurance program, Uccello clarified that the program's gradual reduction in funding has resulted in a corresponding increase in premiums each year. She

noted the last year of the reinsurance program is in 2016, resulting in "an increase in [2017] premiums of 4 to 7 percent due to that final reduction in the reinsurance program."

The full panel's presentation is [posted on the Academy's newsroom page](#); Uccello's remarks start at the 14:30 mark of the embedded [YouTube video](#). ▲

## Webinar Covers Report on PBR Modeling for LTC Insurance

**MORE THAN 200 PEOPLE** attended the June 30 [health webinar](#) on the [Report on Principle-Based Reserve Modeling for Long-Term Care \(LTC\) Insurance](#), which was issued in January. Hosted by members of the LTC PBR Work Group, the webinar provided a live demonstration of the model in Excel as well as discussion of the report, which demonstrates the feasibility of one modeling approach. Slides and audio are available on the [Academy's webinar site](#). ▲

### HEALTH BRIEFS

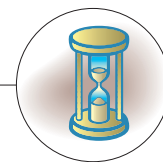
- ➡ **Dave Dillon** has joined the Health Financial Reporting and Solvency Committee.
- ➡ **Julia Lerche** has joined the Medicaid Subcommittee.

## Webinar to Look at Health Care Systems of Hong Kong, Taiwan

**T**HE ACADEMY'S "Exploring Global Health Care Cost Drivers" webinar series explores comparative experience with health care cost trends and drivers of cost increases worldwide. Join us Aug. 25 for the next webinar in this series, which resumes with a look at health care systems in Hong Kong and Taiwan, with a focus on cost trends. It will examine successes and challenges the two systems have experienced as they have worked to identify and address particular cost drivers.

"[Exploring Global Health Care Cost Drivers: Hong Kong and Taiwan](#)" will be held on Thursday, Aug. 25, from 8 to 9:30 a.m. EDT. [Registration is open](#) through Aug. 19. Planning is under way for the next webinar in the series, which will look at France and the United Kingdom and is scheduled for Oct. 5. ▲





## Work Group Submits Comments to NAIC on Life Risk-Based Capital Formula

**T**HE LIFE OPERATIONAL RISK WORK GROUP [submitted comments](#) to the NAIC's Operational Risk (E) Subgroup on how operational risk, including a prospective growth charge, might be better reflected in the Life Risk-Based Capital (RBC) formula.

The work group suggests refining the charge for growth and operational risk (OR) that satisfies its understanding of the NAIC's objectives regarding the life RBC formula, and states it believes that OR and the growth charge should:

- Give appropriate consideration to the existing C-4 charge for "general business risk," noting that this C-4 charge incorporates OR, and that the other existing RBC charges also incorporate OR to some extent. "We believe particular care needs to be taken to avoid double-counting of OR within the Life RBC formula";

- Consider the advantages and disadvantages of a proxy-based approach versus an add-on approach for calculating an OR charge;
- Consider the viability of a growth charge in the Life RBC formula, recognizing the different nature of life, property and casualty, and health insurance; and

Consider the correlation of OR relative to other risks in the LRBC formula (i.e., should OR be part of the LRBC covariance adjustment?).

The letter covers a proposed Phase I and Phase II, including a suggestion to change the name of the current C-4 component to "Operational Risk" or "Business and Operational Risks" in order to formally recognize the operational risk already captured in the formula,

For Phase II it proposes assisting NAIC in developing a rigorous approach to defining, monitoring, and ultimately determining appropriate capital charges and other mitigating factors for OR, through a multiyear project, but did not offer a specific plan or timetable. ▲

## Life Practice Council, Life Reserves Work Group Submit Comments to LATF

**T**HE LIFE PRACTICE COUNCIL (LPC) [submitted comments](#) to the NAIC's Life Actuarial Task Force (LATF) on qualified actuaries' responsibilities to the interests of the company versus the commissioner.

LATF did not define what was meant by "the interest of the company or the interest of the commissioner," so the LPC does not attempt to address the "interests" of either party.

The letter cites ASOP No. 41, an actuarial standard of practice "that may serve the interests of any intended user." Its Section 2.7 defines an intended user as "any person who the actuary identifies as able to rely on the actuarial findings."

The LPC notes that when an actuary is assigned by his or her principal to act as the qualified actuary for a group of policies or contracts, the principal's commissioner is an intended user of the [principle based reserve] actuarial report, and should be able to rely on the actuarial findings in the report, which is true even if the assumptions are set by the principal.

### LRWG Comments on VM-20 Proposed Amendment

The Life Reserves Work Group (LRWG) [submitted comments](#) to the LATF on the exposed NAIC staff Amendment Proposal Form on VM-20 product aggregation.

The LRWG supports Option 1 regard-

ing the revision to Section 5.G. that defines the approach to allocate the stochastic reserve to the three product types, and notes that Option 1 is consistent with the LRWG proposal on this issue that was described in its April 25 comment letter. It permits the recognition of risk offsets between the three product types, which the LRWG believes is a fundamental principle of a principle-based system, and it produces an appropriate allocation of the total stochastic reserve to the three product types.

The comment letter also offers wording changes to improve clarity, including changing the word "group" to "type" in several places. ▲

## Volunteer Survey Coming in August

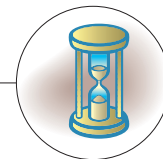
**T**HE ACADEMY'S ANNUAL VOLUNTEER SURVEY will take place in August. Actuaries who volunteer at the Academy have a voice in public policy and the future of the profession, the ability to expand their own personal expertise, and the opportunity to earn continuing education credit. It's an opportunity actuaries are fortunate to have, and something most careers don't offer.

The survey, which takes just a few min-

utes to complete, lists and describes Academy's committees, highlighting those that are actively seeking volunteers. Noting your interest will be of great help to the chairpersons of the committees you are interested in, and will increase the likelihood of matching your expertise and interest to committees' needs.

Please keep an eye out for the survey, which will be emailed to Academy members in early August. ▲





## Discounts Available Through Aug. 12 for Fall PBR Boot Camp

**SPACES ARE FILLING QUICKLY** for the fall “[PBR Boot Camp: Basic Training and Beyond](#),” to be held in Orlando, Fla., Sept. 21–23. Register today for this popular event to secure your spot; [early registration rates](#) are available through Aug. 12.

This intensive two-and-a-half-day seminar on principle-based reserving (PBR)—which follows June’s successful Chicago PBR Boot Camp—will allow actuaries to get a head start on understanding PBR before it takes effect, which is expected in January 2017 for life insurers.

Presented by the Academy’s Life Practice Council, the seminar will include instructional sessions and interactive case studies to provide attendees with key learning experiences before PBR implementation begins. ▲

### LIFE BRIEFS

- ➔ **Kevin Kuzmick** has joined the Annuity Reserves Work Group.
- ➔ **Peter Weber** has joined the PBR Strategy Subgroup.

## Lowest Rates Available for Life and Health Qualifications Seminar

**REGISTER TODAY** for the lowest rates to attend this year’s [Life and Health Qualifications Seminar](#), to be held Nov. 13–17 in Arlington, Va. (Washington, D.C., metro region).

This seminar is considered to be the most succinct and effective way to fulfill some of the important requirements needed to qualify to issue actuarial opinions for the NAIC life and health annual statements and earn necessary CE credit. It also serves as a basic education refresher or as a source of required continuing education for more experienced actuaries.

Topics will include health insurance valuation; premium, loss, expense, and contingency reserves; risk-based capital; and professionalism.

*“This seminar has been described by others as the most helpful of any seminar, and I agree.”*  
—2015 LHQ attendee

Early registration rates are in effect through Sept. 12. [Register today](#) to reserve your space. ▲

## LIFE & HEALTH QUALIFICATIONS SEMINAR

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Health insurance valuation topics | Premium, loss, expense, and contingency reserves | Risk-based capital

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## Education, continued from page 1

specific area of practice. These aren't arbitrary requirements; they are common-sense necessities. They are also the essential elements covered by the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (the U.S. Qualification Standards, or USQS). The goal of these standards is to ensure that actuaries practicing in the United States are fully competent to perform the specific work that they are actually engaged in.

Continuing education can't replace basic actuarial education or work experience, but it does play a vital role in supplementing them. Our CE requirements are intended to ensure that a practicing actuary's knowledge remains current and relevant. Understanding the purpose and context for continuing education can help us make wise choices. Have important new tools and techniques been introduced since I completed my exams? Are there aspects of my practice area where my personal experience is weak? Have there been changes in the laws, regulations, or standards of practice that are relevant to my work? By recognizing the real-world rationale behind the qualification standards and making judicious use of continuing education to fill any emerging gaps in our knowledge or experience, we can maintain our ability to provide high-quality actuarial services in a rapidly changing world.

There is some value in making cereal flavorful and fun—it encourages children to eat. CE can be delivered in a variety of ways. Different approaches may work better for different people, and just as with cereal, new “flavors” of CE are continually being developed. But whether I attend a webinar or complete an online training module, the goal is the same—to ensure my continued competence. The Code of Professional Conduct requires that we do actuarial work

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only when we're qualified to do so on the basis of “basic education and continuing education and experience” *and only when* we meet applicable qualification standards.

Almost everyone needs breakfast, and the same is true of continuing education. The U.S. Qualification Standards recognize that “qualification” isn't a free-floating concept—I am qualified (or not qualified) with respect to a specific set of actuarial services or area of practice. Because the goal of the standards is to ensure that the public can rely on the work done by actuaries, the standards are written to focus on the final results that we present. The technical term “Statement of Actuarial Opinion” (SAO) is used for this; some might misunderstand this term to be limited to a formal statement filed with a regulator—nothing could be further from the truth. A simple rule of thumb is that if I perform work that someone else relies on *because I am an actuary*, then the qualifications standards likely apply—because for them to rely on my work, I have to communicate the results (give an opinion) in some fashion. Some of us have retired, or are no longer working as actuaries—

but for the rest of us, staying current is a necessity. (For additional information on this subject, see my piece in the September-October issue of *Contingencies* magazine.)

I still eat cereal, but it's no longer all about the marshmallows—I have a more mature appreciation for the importance of nutrition. Continuing education is a part of my life, and I track my hours—but I no longer think of it as a matter of accumulating an arbitrary number of hours. Over the years I've developed a more mature appreciation for the need to maintain my professional competence. CE—it's part of a complete framework for ensuring professional competence. ▲

## Directors, continued from page 1

Council from 2006–2013, chaired the Flood Insurance Subcommittee from 2006–2013 and has been a member of the Natural Catastrophe Subcommittee since 2006.

Rietz was vice president of professionalism from 2002–2004 and a special director prior to that, and was chairperson of the Actuarial Board for Counseling and Discipline from 2014–2015. Slotznick has been chairperson of the Committee on Property and Liability Finan-

cial Reporting since 2014, on which she first became a member in 1996, and is a member of the Financial Reporting Committee and the Opinion Seminar Subcommittee.

Online voting for the regular director positions will begin in August. For more information about the Nominating Committee Guidelines for how candidates are selected and other election details, please visit the Academy's online [Election Center](#). ▲

## Driverless, continued from page 7

insurance be a product that's included in the price of the vehicle?" "If there is a crash, is it a result of the product's defect?" and "In a world where accidents aren't necessarily the result of the negligence of a driver, what will the role of insurance be?"

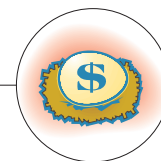
And with an overlap of autonomous vehicles and conventional vehicles on the road, another question will be the impact that this type of a fleet will have on insurance, he said.

"As actuaries, how much data are you going to need to be able to make a recommendation on rating plans?" he said. "This is exactly the right time to be thinking about these issues."

Hatipoglu said autonomous vehicles have the potential to prevent and reduce accidents, and that 94 percent of the annual 35,200 motor vehicle deaths are related to human choice or error, although many also include other factors.

He cited currently available technologies, such as crash avoidance systems, that are aimed primarily at helping drivers rather than replacing drivers. "Automated vehicle systems really need to replicate" the safety of such systems, Hatipoglu said, with the goal of reducing and eliminating accidents.

[Slides and audio](#) are available on the Academy's webinar page. ▲



## Actuarial Update

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The American Academy of  
Actuaries  
1850 M Street NW  
Suite 300  
Washington, DC 20036  
Phone 202-223-8196  
Fax 202-872-1948  
www.actuary.org

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## Pension Committee Sends Comments on Improving Availability of IRS Actuaries to Profession

**T**HE PENSION COMMITTEE released a [comment letter](#) on the decision by the IRS to limit pension actuaries' ability to interact with IRS actuaries and other experienced employee benefits personnel.

"We understand that these decisions may stem from time and budget constraints. We do not believe, however, that the inability of pension actuaries to interact with appropriate IRS personnel will result in cost-effective outcomes," the letter states. "U.S. retirement systems are exceedingly complex, and the ability of pension actuaries and the IRS to exchange timely, useful information is vital to the smooth operation of the systems."

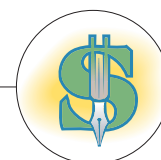
The committee cites the IRS's "Questions to IRS/Treasury and a Summary of Their Responses"—or

## PENSION BRIEFS

➔ **John Schubert** has joined the Pension Practice Council.

"Gray Book"—which it said "is an excellent example of how the IRS has benefited through saving time and effort through collaboration with practitioners," noting the most recent accumulated Gray Books contain well over 1,000 answers to real-life questions and are read by more than 1,000 actuaries each year. The availability of such information likely eliminates a significant number of formal requests for guidance, or decisions to proceed without advice, resulting in potential errors, the letter states. ▲

## RISK MANAGEMENT &amp; FINANCIAL REPORTING NEWS



## Webinar Looks at ORSA, Risk Assessment

**M**EMBERS OF THE ERM/ORSA Committee's Risk Exposures Subgroup walked through aspects of the new practice note, [Quantifying Risk Exposures for Own Risk and Solvency Assessment Reports](#), in a July 20 webinar, "[Putting a Price on Risk: Quantifying Risk Exposures for ORSA Reports](#)," that was attended by more than 500 people from almost 300 registered sites.

The panelists, and moderator Jeffrey Schlinsog, vice president of the Risk Management and Financial Reporting Council, highlighted aspects of the practice note, which provides actuaries and regulators with information on the approaches used to quantify risk exposures that may be included in section 2 of an Own Risk and Solvency Assessment (ORSA) report.

Panelist Ashlee Borcan, whose primary area of concentration is the supplemental health insurance market, said that with moving into ORSA, actuaries have to identify risks that are beyond their normal areas of expertise. She suggested one idea of putting together a "heat map" of potentially damaging items that could cost the company more or risk its reputation in the market.

Tricia Matson, the ERM/ORSA Committee's chairperson and immediate past chairperson of the

Actuarial Standards Board, noted that there are nine risk classification categories that have been identified by the NAIC. "Those may not overlap with the way that a company looks at their own risk categorization, and that's absolutely fine," she said, adding that there will be risk that will be harder to quantify, including operational and core actuarial risks.

Lesley Bosniack, who leads a capital and enterprise risk analytics function team and focuses on property and casualty issues, said that qualitative analysis of risk can often be equally as important as quantitative analysis. She noted that collaboration with disciplines outside of the actuarial space also can be a way to identify potential risks.

The panelists also covered stress-testing, which they said could be helpful in identifying contingency plans for a company. Schlinsog said in summary that many insurers are already using robust approaches to quantify risk exposures—and for those that are not, an ORSA report is providing a push to enhance risk quantification. "Actuarial judgment will always be an important aspect of assessing the hard-to-quantify risks, especially in areas like operational and strategic risks," he said.

Slides and audio of the webinar are available to members who log in to the Academy's [webinar page](#). ▲