



# AMERICAN ACADEMY *of* ACTUARIES

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June 24, 2003

The Honorable J. Dennis Hastert  
Speaker of the House  
U. S. House of Representatives  
H-232 Capitol Building  
Washington, DC 20515

Dear Speaker Hastert:

This letter presents the comments of the American Academy of Actuaries'<sup>1</sup> on the Medicare reform legislation currently being considered in the House (H.R. 2473) and Senate (S.1). As written, both bills reference activities that are actuarial in nature and we believe these activities should be undertaken only by a qualified actuary who is a member of the American Academy of Actuaries ("Academy") — an organization that establishes and maintains high standards of professionalism for its members.

As the U.S.-based organization with primary responsibility for promoting actuarial professionalism, the Academy staffs and supports the Actuarial Standards Board (which promulgates actuarial standards of practice), the Committee on Qualifications (which develops qualification standards), and the Joint Committee on the Code of Professional Conduct (which develops and maintains standards of conduct for actuaries). The Academy also staffs and supports the Actuarial Board for Counseling and Discipline (ABCD), which provides confidential guidance to actuaries on how to maintain high professional standards in their practices and investigates complaints that may be brought against them. Academy members who fail to comply with applicable professional standards are subject to public discipline up to and including expulsion from membership.

Thus, Academy membership brings with it the obligation to comply with high standards of qualification, conduct, and practice. Actuaries who are not members of the Academy, or one of the other U.S.-based actuarial organizations, are not subject to the professional standards and discipline process just described. Therefore, in a situation where a non-member actuary had issued a flawed actuarial opinion or certification, the Academy would not be available to help address the situation.

In section 1860D-1(c)(2)(B) of H.R. 2473, I am pleased that a reference to subparagraphs (A) through (C) of section 2103(c)(4) of the Social Security Act was included, thereby requiring that an actuarial opinion be rendered only by an actuary who is a member of the American Academy of Actuaries. Such language should apply to all work referenced in the bills that would require an opinion or certification by an actuary. The Academy designation means that the actuary is bound by the high standards of professionalism that the Academy enforces.

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<sup>1</sup> The Academy is the public policy organization for actuaries of all specialties within the United States. In addition to setting qualification and practice standards, a major purpose of the Academy is to act as the public information organization for the profession. The Academy is nonpartisan and assists the public policy process through the presentation of objective analysis. The Academy regularly prepares comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

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For example, one key area that should require certification by a qualified actuary who is a member of the American Academy of Actuaries is the determination of actuarial equivalence, which is referred to several times in both the House and Senate bills. Such a determination should only be made by an individual who is bound by the Academy's high professional standards to ensure its accuracy.

There are several more specific examples of where the Academy should be referenced, including Section 801 of the House bill, which provides for the establishment of the position of chief actuary in the newly created Medicare Benefits Administration. As stated in this section, "The Chief Actuary shall be appointed from among individuals who have demonstrated, by their education and experience, superior expertise in the actuarial sciences." The legislation should require this individual to be a member of the American Academy of Actuaries, to ensure that the individual selected would be a qualified actuary who would be obliged to comply with the Academy's standards of qualification, conduct, and practice. The work of the Chief Actuary is very important and an individual doing such work should be held to the Academy's high professional standards.

Section 1860D-2(e)(2) states that "PDP sponsors and entities offering MA-EFFS R<sub>x</sub> plans may use actuarial opinions certified by independent, qualified actuaries to establish actuarial values, but the Administrator shall determine whether such actuarial values meet the requirements under subsection (c)(1)." The Senate bill, S. 1, has a similar requirement in section 1860D-6(f)(2). A "qualified actuary" should be defined as "an individual who is a member of the American Academy of Actuaries" to ensure an opinion or certification by an actuary who is bound by the Academy's standards.

Section 1860D-6(f)(1)(A) of S. 1 says that the Administrator has the authority to "establish processes and methods for determining the actuarial valuation of prescription drug coverage, including — (i) an actuarial valuation of standard prescription drug coverage and of the reinsurance payments...; (ii) the use of generally accepted actuarial principles and methodologies..." The legislation could be further strengthened to say, "the use of generally accepted actuarial principles and methodologies as reflected in the professional standards promulgated by the American Academy of Actuaries and the Actuarial Standards Board."

The examples I have provided are not an exhaustive list of all areas in the legislation where the standards of the American Academy of Actuaries should be referenced. The examples are meant to provide a general idea of where the American Academy of Actuaries' designation should be required and where the Academy's high standards should be the benchmark.

Members of the Academy would be happy to work with you on specific legislative language to appropriately reference the standards of the Academy. If you or your staff have any questions please feel free to contact me through the Academy senior health policy analyst (federal), Holly Kwiatkowski at (202) 223-8196 or [kwiatkowski@actuary.org](mailto:kwiatkowski@actuary.org).

Sincerely,

Janet M. Carstens, FSA, MAAA, FCA  
Vice President, Health Practice Council