

2003

Professionalism Annual Report

Actuarial Board for Counseling and Discipline

Actuarial Standards Board

Committee on International Issues

Committee on Professional Responsibility

Committee on Qualifications

Council on Professionalism

Joint Committee on the Code of Professional Conduct

Preface

To Members of All Organizations Representing Actuaries in the United States:

This is the eighth combined annual report of the Actuarial Board for Counseling and Discipline, the Actuarial Standards Board, the American Academy of Actuaries Committee on Qualifications, and the Academy's Council on Professionalism. Its purpose is to inform the members of the five U.S.-based organizations representing actuaries (American Academy of Actuaries, American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries) about the activities of these groups and their importance to actuarial professionalism.

In the United States, the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline have been established as independent organizations to serve the actuarial profession in the areas of standard-setting and investigation, counseling, and discipline. They are responsible to the five U.S.-based organizations representing actuaries. Each of these boards receives administrative support from the staff of the American Academy of Actuaries, the cost of which is covered by American Academy of Actuaries dues, plus additional support from the other U.S.-based organizations to cover the cost of their members who are not members of the American Academy of Actuaries.

The actuarial profession in the United States has delegated to the Academy, through the Academy's Committee on Qualifications, responsibility for developing and maintaining standards of qualification to practice as an actuary.

The U.S.-based organizations have agreed to maintain a common Code of Professional Conduct, including reference to appropriate qualification standards and standards of practice, and counseling and disciplinary practices designed to be consistent between the organizations. That Code is maintained by the Joint Committee on the Code of Professional Conduct, a committee of representatives of the U.S.-based organizations that receives administrative support from Academy staff.

The activities of the Actuarial Board for Counseling and Discipline, Actuarial Standards Board, Committee on Qualifications, Joint Committee on the Code of Professional Conduct, and other committees addressing various aspects of professionalism, including the Committee on International Issues and the Committee on Professional Responsibility, are coordinated through the Academy's Council on Professionalism, which is dedicated to encouraging the members of all U.S.-based actuarial organizations to achieve and maintain a high level of professionalism in their ongoing practice.

There are also committees that address professionalism issues within each of the organizations representing actuaries in the United States. The work of these groups supports the efforts of the Actuarial Board for Counseling and Discipline, Actuarial Standards Board, and Academy Committee on Qualifications and strengthens the professionalism of all actuaries.

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Actuarial Board for Counseling and Discipline

Letter from the Chair



During 2003, the Actuarial Board for Counseling and Discipline (ABCD) continued to implement recommendations from a task force study of its operations. The ABCD enlisted a new group of investigators for future cases, initiated a series of quarterly reports to all those involved in current cases, and directed efforts toward better communication with the profession about the work of the ABCD. Despite this year's efforts, communication remains a problem needing further attention.

Work was completed on a number of complaints that arose in prior years, including four on which hearings were held. The number of new complaints filed during the year was smaller than usual, and thus a smaller backlog existed at the end of the year than has in recent years.

The volume of requests for guidance remained strong, although nowhere near the high level of 2002.

Requests for guidance are defined as inquiries from actuaries who have questions about conforming their own work to the Code of Professional Conduct and the standards rather than complaining about the conduct of another. In the four years that I have been on the ABCD, I have seen and admired the skill and dedication with which ABCD members respond to requests for guidance. Those who make requests for guidance need (and usually get) fast and effective answers.

The ABCD saw two outstanding members complete their term and leave at the end of 2003. Bill Bugg and Bob Sturgis both gave unselfishly of their knowledge, insights, and energies during the era of their service. We shall miss them.

Frank S. Irish
Chairperson

Actuarial Board for Counseling and Discipline



Actuarial Board for Counseling and Discipline

Top (L-R): William J. Falk, Lawrence A. Johansen, Sue Ann Collins, David P. Flynn, William J. Bugg Jr. Bottom (L-R): Howard M. Phillips (Vice Chairperson), Frank S. Irish (Chairperson), Robert W. Sturgis (Vice Chairperson). Not pictured: Edward E. Burrows.

Committee on International Issues

Letter from the Chair

The Committee on International Issues is responsible for all liaison activities with the international actuarial community involving international professionalism issues.

In particular, we monitor international developments with respect to codes of conduct, qualification standards, and standards of practice. We also recommend Academy appointments of U.S. actuarial representatives to all international boards and committees. In practice, this means interacting with the Committees of the International Actuarial Association (IAA).

As a consequence, the membership of the Committee is composed of the delegates and alternate delegates to the IAA from the 5 U.S.-based actuarial organizations.

Currently, the Committee has a draft discussion paper, available on the Academy's website, entitled *Application of Professional Standards in International Practice—Concepts on Professionalism*, seeking membership comments. The purpose of the paper is to assist actuaries

in applying professional standards of conduct, practice, and qualification when practicing internationally.

The Committee hopes that the ideas presented will prove useful and thought-provoking and will enhance members' consideration of the professionalism aspects of international practice. Ultimately, it is the Code of Professional Conduct that governs members' actions in this area, but it is hoped the paper will assist actuaries in applying the Code to their individual situations.

In addition, the Committee is charged with developing a summary comparison chart comparing U.S. standards with those of other countries and having the chart posted on the website later in 2004.

If you have any concerns on international issues, please feel free to contact the Committee.

Curtis E. Huntington, Chairperson
Committee on International Issues



Council on Professionalism

Letter from the Vice President



For better or for worse, the actuarial profession has raised its public profile so that we no longer have to explain what we do. Our work is being scrutinized ever more closely by accountants, attorneys, media, plan participants, policyholders, state and federal regulators, and other similar constituencies. Fortunately, our work has withstood the glare of public and legal inspection, with very few exceptions. In general, the actuarial profession's public acknowledges and respects the high level of integrity and competence of actuaries, a perception in accordance with the Council on Professionalism's vision statement for the profession.

The council has focused its energy and resources over the past year on trying to achieve that vision. But rather than enumerate last year's achievements, I'd prefer to look forward to next year's challenges. The council is currently seeking comments from all Academy members on an exposure draft on revised qualification standards. If ultimately adopted by the Academy's Board of Directors, this exposure draft will affect almost every active member's practice.

One challenge will be to attract comments from a much larger proportion of our membership than historically has provided comments.

At the same time, the council has formed a task force to review and address litigation risks. This task force faces the challenge of driving necessary cultural changes through the profession. Until then, actuaries will continue to face multimillion-dollar lawsuits, including lawsuits in which the actuary is clearly not at fault. Similar challenges abound, including some that have not yet been discovered. The council is composed of many exceptional volunteers, all devoted to increasing the already high level of professionalism among actuaries. Their insight and contributions to the council are the fuel that allows the Academy's professionalism engine to run smoothly. I am truly thankful to be associated with a group of actuaries who are so deeply committed to achieving the council's vision.

Robert J. Rietz

*Vice President of Professionalism
American Academy of Actuaries*

Joint Committee on the Code of Professional Conduct

Letter from the Chair

Having completed the significant effort in 2000 to complete the revised Code of Professional Conduct and work for its adoption by the U.S. actuarial organizations, the Joint Committee on the Code of Professional Conduct devoted 2003 to the ongoing tasks of monitoring issues related to the Code and educating members about the requirements of the revised Code.

As part of that effort, committee representatives met with practitioners to discuss the application of the Code in professional practice and ways that the Code might be misinterpreted.

One area of potential concern to some practitioners was how the Code's disclosure requirements might be mis-

understood, particularly in the context of litigation. To provide practitioners with additional, non-binding guidance in this area, the committee agreed to prepare a discussion paper on disclosure under the Code. A first draft of the paper will be available to the membership later in 2004.



*Kenneth A. Kent, Chairperson
Joint Committee on the Code of
Professional Conduct*

Committee on Qualifications

Letter from the Chair

The Committee on Qualifications finalized revised Qualification Standards and is currently exposing them for comments from Academy members. The exposure draft, which incorporates feedback from a discussion draft that was circulated at the end of 2002, would expand the scope of the standards to all statements of actuarial opinion.

While the original Qualification Standards focused on statutory and regulatory work, the revised standards apply to a broader range of actuarial opinions, such as opinions intended by the actuary for people or organizations other than the actuary's direct employer. The revised

standards reflect the ever-changing nature of the actuarial profession by focusing on broad areas of actuarial practice rather than the traditional practice areas.

The committee looks forward to reviewing the comments on the exposure draft and encourages all members of the Academy to review carefully the exposure draft and submit comments.



*Kathleen A. Riley
Chairperson
Committee on Qualifications*

Actuarial Standards Board

Letter from the Chair



The Actuarial Standards Board (ASB) develops, obtains comment upon, adopts, and revises actuarial standards of practice (ASOPs) for the actuarial profession. ASOPs serve actuaries by assuring that their work will conform to generally accepted actuarial practices. At the same time, ASOPs assure the public that actuaries are professionally accountable.

In 2003, the ASB approved the release of five exposure drafts and three second exposure drafts. The ASB continued its effort to update existing standards in order to reflect current practices; five of the exposure drafts were proposed revisions of existing standards.

One notable exposure draft, the Introduction to the Actuarial Standards of Practice, offered guidance about the purpose, nature, and format of ASOPs, as well as information about some commonly used terms and concepts.

In addition, the ASB repealed three documents this year:

- Actuarial Compliance Guideline (ACG) No. 1, An Actuary's Guide to Compliance with Statement of Financial Accounting Standards No. 87
- ACG No. 2, For Statement of Financial Accounting Standards No. 88
- The preface to the ASOPs.

For devoting their time and dedication to the standards-setting process, I would like to extend my thanks to members of the ASB, to ASB committee and task force chairpersons, to all volunteers who serve on the drafting committees, and to our staff. Special thanks to Heidi Rackley and Robert Wilcox, who concluded their service on the ASB at the end of 2003, as well as to William Koenig, who concluded his two-year term as chairperson.

Mike LaMonica
Chairperson

Actuarial Standards Board

Actuarial Standards Board

L-R: William Weller, Cecil Bykerk, Heidi Rackley, William Koenig (Chairperson), Michael LaMonica, Ken Hartwell, Karen Terry, Lawrence Sher, Robert Wilcox.



Committee on Professional Responsibility

Letter from the Chair

Under the Council on Professionalism, the general charge of the Committee on Professional Responsibility is to promote, through its activities, high levels of professionalism among the members of the Academy.

The committee met in person three times during 2003. Our efforts have been focused primarily on the creation of discussion papers on professional topics in developing areas of actuarial practice. Discussion papers, which are available to members on the Academy's website, provide a framework of ideas for members to use in making their own decisions.

In early 2003, *The Actuary's Relationship's with Users of a Work Product* was completed by the committee, approved by the Council, and published on the Academy website. Near the end of 2003, the committee finalized a draft of *The Application of Principles and Practices for Actuaries*

Working in Developing Areas, anticipating publication approval in early 2004.

The committee continued work on revisions to an existing discussion paper on the topic of peer review, and began work on a new discussion paper with the working title of *The Role of the Actuary and the Nature of Actuarial Models*.

The committee also made significant progress on the development of a professionalism speaker's kit. A sample slide presentation has been completed and work on an accompanying script is scheduled to be released in 2004.



Tom Bakos
Chairperson

Committee on Professional Responsibility

2003

Professionalism Annual Report

ABCD Cases Considered During 2003

Type of Case	Pending from 2002 and Earlier	Received in 2003	Total	Cases by Practice Area	Pending from 2002 and Earlier	Received in 2003	Total
Conduct	12	3	15	Casualty	2	8	10
Practice	5	5	10	Health	2	6	8
Conduct & Practice	3	1	4	Life	5	7	12
Requests for Guidance	1	31	32	Pension	12	19	31
TOTAL	21	40	61	TOTAL	21	40	61

Cases Closed

Action by Individual ABCD members

Replied to requests for guidance	30
Mediated	1

Disposition by Chairperson and Vice Chairpersons

Dismissed	4
(Referred to Investigators in 2003 — 4)	

Disposition by Whole ABCD after investigation

Dismissed	3
Dismissed with guidance	2
Counseled	2
Counseled after hearing	2
Recommended suspension	1

TOTAL

45

Cases in Progress (as of 12/31/03)

Pending investigation (including cases initially referred to investigation in 2003)	7
Pending hearing	1
Pending receipt of more information (from complainant, subject, other)	6
Request for guidance pending	2

TOTAL

16

Since its inception in 1992, the ABCD has completed its cases as follows:

Dispositions	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Dismissed	12	24	9	11	8	11	13	10	5	20	16	7	146
Dismissed with guidance	6	10	3	—	5	1	5	2	8	5	4	2	51
Counseled	—	2	8	1	6	2	5	—	2	3	2	4	35
Mediated	3	1	1	—	—	—	—	1	—	4	—	1	11
Recommended private reprimand	—	—	—	—	—	—	—	—	1	1	—	—	2
Recommended public discipline	—	1	2	—	3	—	1	—	3	—	—	1	11
Replied to requests for guidance	8	8	8	10	28	31	22	31	36	21	47	30	280
TOTAL	29	46	31	22	50	45	46	44	55	54	69	45	536



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ABCD Financial Summary
Year Ended December 31, 2003¹

Revenue

Interest	\$ 1,345.50
Service Fees ²	<u>49,795.95</u>
Total Revenue	\$ 51,141.45

Expenses

Staff salaries ³	\$103,059.00
Staff benefits	26,891.00
Office Operating Costs	38,114.00
Printing	1,634.00
Postage and Delivery Services	5,272.00
Staff Travel	5,704.00
Meetings	22,952.00
ABCD Travel Reimbursement	25,916.00
Investigatory Hearings	3,350.00
Investigators' Reimbursements	3,276.00
Public Relations	-0-
Professional Services	920.00
Other	<u>6,890.00</u>
Total Expenses	\$243,978.00

1. The above figures represent **unaudited financial** results associated with the ABCD. Copies of the audited financial statements of the American Academy of Actuaries are available upon request from the Academy's office in Washington, D.C. Many members of the actuarial profession have contributed significant amounts of time to the activities of the ABCD without compensation. This financial summary does not reflect the value of those contributed services.
2. In addition to funding from the Academy, operating costs for the ABCD are supported in part by payments from the American Society of Pension Actuaries, Casualty Actuarial Society, Conference of Consulting Actuaries, and Society of Actuaries.
3. Includes salaries of full-time staff members and charges for actual time spent on the ABCD program by other Academy employees.

2003 Annual Report of the Actuarial Standards Board

In 2003, the Actuarial Standards Board (ASB) approved the release of five exposure drafts and three second exposure drafts. The ASB continued its effort to make sure existing actuarial standards of practice (ASOPs) reflect current, generally accepted actuarial practice. Five of the new exposure drafts were proposed revisions of existing ASOPs, and three were proposed new ASOPs.

As part of its focus on bringing older professionalism material up to date, the ASB repealed three documents this year: (1) Actuarial Compliance Guideline (ACG) No. 1, *An Actuary's Guide to Compliance with Statement of Financial Accounting Standards No. 87*; (2) ACG No. 2, *For Statement of Financial Accounting Standards No. 88*; and (3) the Preface to the ASOPs.

Casualty Committee

The Casualty Committee, chaired by Robert Miccolis, oversaw the preparation of a proposed new ASOP on loss reserve analysis, which the Subcommittee on Reserving is writing. The Casualty Committee expects to present an exposure draft to the ASB in 2004.

General Committee

The General Committee, chaired by W.H. Odell, produced an exposure draft of a proposed revision of ASOP No. 23, *Data Quality*. The ASB approved the exposure draft in October 2003 with a comment deadline of March 31, 2004.

In addition, the General Committee oversaw task forces that worked on the following projects:

The Task Force to Revise ASOP No. 12, chaired by Mark Litow, began drafting a proposed revision of ASOP No. 12, now titled *Risk Classification*. The General Committee expects to present an exposure draft to the ASB in 2004.

The Task Force to Revise ASOP No. 21, chaired by James Milholland, reviewed comment letters on the first exposure draft of a proposed revision of ASOP No. 21, now titled *Responding to or Assisting Auditors or Examiners in Connection with Financial Statements (All Practice Areas)*. The ASB approved the proposed revision as a second exposure draft with a comment deadline of April 30, 2004.

The Task Force to Revise ASOP No. 38, chaired by Burton Jay, produced an exposure draft of a proposed revision of ASOP No. 38, now titled *Using Models Outside the Actuary's Area of Expertise (All Practice Areas)*. The task force was charged with expanding the scope of the existing property/casualty ASOP to apply to all practice areas. The ASB approved the exposure draft in October 2003 with a comment deadline of March 31, 2004.

Health Committee

The Health Committee, chaired by Alan Ford, oversaw a task force that reviewed comment letters received on the first exposure draft of a proposed new ASOP, *Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims*. The task force revised the exposure draft in response to the comment letters and produced a new draft for the ASB's consideration in October 2003. The ASB approved the document as a second exposure draft with a comment deadline of January 31, 2004.

Life Committee

The Life Committee, chaired by Godfrey Perrott, oversaw task forces that worked on the following projects:

The Task Force to Revise ASOP No. 1, chaired by Thomas Phillips, produced an exposure draft of a proposed revision of ASOP No. 1, *The Redetermination (or Initial Determination) of Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Contracts*. The ASB reviewed the draft in March 2003 and approved it for exposure with a comment deadline of August 15, 2003. The task force reviewed comment letters received on the exposure draft and revised the draft in response. The Life Committee plans to present a proposed final standard to the ASB in 2004.

The Task Force to Revise ASOP No. 11, chaired by Allan Ryan, produced an exposure draft of a proposed revision of ASOP No. 11, *The Treatment of Reinsurance Transactions Reflecting Life or Health Insurance Risks in Financial Statements*. The ASB reviewed the draft in June 2003 and approved it for exposure with a comment deadline of December 15, 2003. The task force plans to review comment letters and prepare a new draft for the ASB to consider in 2004.

The Task Force to Revise ASOP No. 19, chaired by Charles Carroll, began work on an exposure draft of a proposed revision of ASOP No. 19, *Actuarial Appraisals of Casualty, Health, and Life Insurance Entities*. The ASB discussed a working draft in December 2003 and will review a proposed exposure draft in 2004.

Pension Committee

The Pension Committee, chaired by Phillip Romello, reviewed comment letters on the first exposure draft of a proposed new ASOP, *Selection and Use of Asset Valuation Methods for Pension Valuations*. The committee revised the draft in response to comment letters and prepared a new draft for the ASB to consider in October 2003. The ASB approved the document as a second exposure draft with a comment deadline of April 30, 2004.

The Pension Committee began reviewing comment letters received on the exposure draft of a proposed revision of ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs*. The committee will revise the draft in response to comments and plans to present a second exposure draft to the ASB in 2004.

Other Projects

The Task Force on the Introduction, chaired by Jack Turnquist, prepared an exposure draft, titled *Introduction to the Actuarial Standards of Practice*, which offers guidance about the purpose, nature, and format of ASOPs, as well as some of the commonly used terms and concepts. The ASB approved the exposure draft in October 2003 with a comment deadline of March 31, 2004.

ASB Financial Summary

Financial activities pertaining to the Actuarial Standards Board are accounted for separately within the American Academy of Actuaries system of accounts. The ASB submits a budget request to the Academy Secretary-Treasurer, listing all projected expenses. The Academy Board of Directors considers this request when adopting the Academy's annual budget and makes provision within the budget for ASB operating expenses.

The ASB has discretion with regard to the expenditure of all funds allocated to it, subject only to accounting and audit requirements mutually determined by the Secretary-Treasurer and the ASB.

Actuarial Standards Board Statement of Expenses Year Ended December 31, 2003¹

Expenses:

Staff salaries ²	\$169,137
Staff benefits	43,425
Office operating costs	61,641
Printing	83,584
Postage and delivery services	37,429
Staff travel	2,280
Committee meetings	25,234
ASB travel reimbursement	41,120
Other	<u>242</u>
Total Expenses:	\$464,092

¹ The above figures represent unaudited financial results associated with the ASB. Copies of the audited financial statements of the American Academy of Actuaries are available upon request from the Academy's office in Washington, D.C. Many members of the actuarial profession have contributed significant amounts of time to the activities of the ASB without compensation. This financial summary does not reflect the value of those contributed services.

² Includes salaries of full-time staff members and charges for actual time spent on the ASB program by other Academy employees.