

TRANSMITTAL MEMORANDUM

To: Members of Actuarial Organizations Governed by the Qualification Standards of the American Academy of Actuaries

From: The Board of Directors of the American Academy of Actuaries
The Committee on Qualifications of the American Academy of Actuaries

Re: Amended Qualification Standards (including Continuing Education Requirements) for Actuaries Issuing Statements of Actuarial Opinion in the United States

This document contains the final version of the amended *Qualification Standards (including Continuing Education Requirements) for Actuaries Issuing Statements of Actuarial Opinion in the United States* promulgated by the American Academy of Actuaries (the Academy). This document supersedes in its entirety the *Qualification Standards for Prescribed Statements of Actuarial Opinion Including Continuing Education Requirements* that was effective April 15, 2001. The amended Qualification Standards are effective January 1, 2008.

Background

In November 2002, the Committee on Qualifications solicited input on a discussion draft that proposed to expand significantly the scope of the Qualification Standards from its then-current focus on statutory and regulatory work to all Statements of Actuarial Opinion (SAOs). A majority of respondents agreed that the scope of the Qualifications Standards should be expanded. In May 2004, the Committee on Qualifications released an exposure draft that defines a Statement of Actuarial Opinion as an opinion expressed by an actuary to be relied upon by the outside person or organization to whom the opinion is addressed. The respondents to the exposure draft were again receptive to the expansion of the qualification standards, although some respondents expressed concern over the definition of a Statement of Actuarial Opinion. A major concern was that the revised definition of a Statement of Actuarial Opinion went beyond the scope of Precept 2 of the *Code of Professional Conduct*.

The second Exposure Draft was released in January 2006 with a comment deadline of July 1, 2006. The second Exposure Draft refined the definition of a Statement of Actuarial Opinion to align it more closely with Precept 2. In addition, the second Exposure Draft included changes to the basic education and experience requirements and significant changes in the continuing education (CE) requirement.

The Committee on Qualifications received 211 comments on the second Exposure Draft (191 comments were received from individuals and 20 comments were received from employers or actuarial organizations). The majority of comments addressed the number of required CE hours; the clarity of the basic education and experience requirements; the definition of Statements of Actuarial Opinion; the proposed elimination of “organized activity”, and a wide variety of

comments on the clarity of the language in various sections of the last exposure draft. The Committee reviewed all of the comments and describes herein the major comments received, and the extent to which comments were incorporated in the final standard.

As noted, the majority of comments received related to the proposed increase in the continuing education requirement from 24 hours every two years to 30 hours annually. While the commentators, in general, were not in favor of increasing the continuing education requirements, the Committee on Qualifications did not reduce the continuing education requirement. The Committee believes that the increased continuing education requirement improves the actuarial work provided to clients and employers, strengthens the profession, and enhances our reputation. Furthermore, the new continuing education requirements are consistent with the profession's goal of uniform continuing education requirements.

Although the continuing education requirement was not reduced from the 30-hour annual requirement in the second Exposure Draft, there were several changes made to the continuing education requirements:

- An hour of credit equals 50 minutes. This was revised from the second Exposure Draft that specified 60-minute hours.
- The Qualification Standards require a minimum of six hours of “organized activities,” a minimum of three hours of professionalism topics, and a maximum of three hours of business skills topics. The second Exposure Draft did not have a specific requirement with respect to “organized activities.” The Committee received feedback in the comments that the elimination of “organized activities” resulted in a weaker continuing education requirement, and that “organized activities” should require interaction with professionals working for different organizations. After considerable discussion, the Committee agreed with these comments and decided to include a minimum requirement of six hours of “organized activities” that involve interaction with actuaries or other professionals working for different organizations.
- There is an exemption for Enrolled Actuaries who issue Statements of Actuarial Opinions related to retirement plans to which ERISA applies. This broad exemption is temporary. Beginning in 2011 (after the next three-year Joint Board cycle), the exemption is limited to the Form 5500 Schedule B certification and other ERISA forms. Enrolled Actuaries who issue Statements of Actuarial Opinion other than those exempted must satisfy the continuing education requirements of the Qualification Standards.
- The 30-hour requirement will typically be met in the calendar year preceding the year in which the actuary issues a Statement of Actuarial Opinion. However, if the 30-hour requirement is not met in the year before an actuary issues a Statement of Actuarial Opinion, the shortfall can be earned in the same year, if earned prior to issuing the SAO. The second Exposure Draft was unclear as to when continuing education should be earned.

- The 30-hour continuing education requirement will be effective for SAOs issued in 2010. There is a transition rule for SAOs issued in 2009, which reduces the 30-hour requirement to 24 hours. However, the 3-hour professionalism requirement and the 6-hour organized activity requirement are not reduced. The 24 hours would typically be earned in 2008.
- To provide additional flexibility in meeting the continuing education requirements, a provision was added to allow for a one-year roll-forward of excess continuing education hours earned in a year.
- A clarifying statement was added to the continuing education requirements for actuaries who must satisfy the Specific Qualification Standards in addition to the General Qualification Standards. The 30-hour continuing education requirement of the General Qualification Standards includes the continuing education requirement of the Specific Qualification Standards.

As noted above, the definition of a Statement of Actuarial Opinion was substantially broadened in the first discussion draft in November 2002 and comments received about that expansion were addressed at that time. Comments on the second Exposure Draft were generally supportive of expanding the scope as previously proposed. Some clarifying language to address definitional questions was added that does not affect the scope. The following definition of a Statement of Actuarial Opinion includes the changes the Committee on Qualifications has made to incorporate those requests for clarification in the comments received:

“For purposes of the Qualification Standards, a Statement of Actuarial Opinion (SAO) is an opinion expressed by an actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed. ‘Actuarial Services’ are defined in the *Code of Professional Conduct* as “Professional services provided to a Principal (client or employer) by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.”

Appendix 1 of the Qualification Standards describes Statements of Actuarial Opinion and gives several examples of opinions that are typically rendered by actuaries. The appendix was revised to eliminate inconsistencies and expanded to include additional examples. The second Exposure Draft specified that “a preliminary draft of an actuarial opinion that has not been provided to an actuary’s client who requested the opinion is not an SAO [and] a preliminary draft of an actuarial opinion that has been provided to an actuary’s client who requested the opinion is an SAO.” The following changes were made to this provision in Appendix 1 to incorporate comments received:

“A draft of an actuarial opinion that has not been provided to an actuary’s Principal who requested the opinion is not an SAO. A draft of an actuarial opinion that has been provided to an actuary’s Principal who requested the opinion is an SAO unless the document is clearly marked that it should not be relied upon. If there is a reasonable

likelihood that the Principal will rely on the draft regardless of intent, that is an indication that the draft is an SAO. If the Principal is not subsequently sent a final report within a reasonable time frame, that is an indication that the draft report is an SAO. The actuary should communicate to the Principal that the final report replaces the draft report. There may be instances where the actuary sends the Principal a draft report that clearly indicates it should not be relied upon (a document that is not an SAO according to the above definition) and the actuary and Principal subsequently agree that a final report will not be issued. In this case, the draft report is not an SAO.”

The Committee eliminated reference to specific examination topics, combined the basic education and experience requirement, and incorporated comments requesting more clarity on these requirements as follows:

“To satisfy the General Qualification Standard, before issuing a Statement of Actuarial Opinion, an actuary must meet the following criteria:

- Be a Member of the Academy, a Fellow or Associate of the SOA or the CAS, a Fellow of the CCA, a Member or Fellow of ASPPA, or a fully qualified member of another IAA-member organization; and
- Have three years of responsible actuarial experience, which is defined as work that requires knowledge and skill in solving actuarial problems; and
- Be knowledgeable, through examination or documented professional development, of the Law applicable to the Statement of Actuarial Opinion. “Law” is defined in the *Code of Professional Conduct*.

In addition, in order to issue Statements of Actuarial Opinion in an area covered by a specialty track offered by the Society of Actuaries, or in an area of practice covered by the exams of the Casualty Actuarial Society or the American Society of Pension Professionals and Actuaries, one of the following must be met:

- Attain the highest possible actuarial designation in an IAA full-member organization (other than the Academy) and complete a specialty track in the area of actuarial practice relevant to the subject of the SAO; or
- Attain the highest possible actuarial designation in an IAA full-member organization (other than the Academy) and have a minimum of one year of responsible actuarial experience in the area of actuarial practice relevant to the subject of the SAO under the review of an actuary who was qualified to issue the SAO at the time the review took place under standards in effect at that time; or
- Have a minimum of three years of responsible actuarial experience in the area of actuarial practice relevant to the subject of the SAO under the review of an actuary who was qualified to issue the SAO at the time the review took place under standards in effect at that time.

Specialty tracks of the Society of Actuaries currently include Enterprise Risk Management, Finance, Health, Group Life and Managed Care, Investments, Individual Life and Annuity, and Retirement Benefits. There are no specialty tracks in the Casualty Actuarial Society or the American Society of Pension Professionals and Actuaries.

A provision was added to the basic education and experience requirement specifying that an actuary needs to meet this requirement only once in an area of practice. Therefore, an actuary who has satisfied the basic education and experience requirement in an area of practice prior to the effective date of the Qualification Standards is deemed to satisfy the basic education and experience requirement in that area of practice of the Qualification Standards.

In response to several comments, changes have been made to the document to remove ambiguities or to provide further clarity.

Conclusion

The revised Qualification Standards are the production of many hours of thought and effort. The Committee on Qualifications and the Academy Board of Directors are grateful to all of the commentators for the contributions to this important project.

Committee on Qualifications

Kathleen Riley, Chairperson

**Nolan E. Asch
Mary Frances Miller
Keith A. Passwater
Henry W. Siegel**

**Donna R. Claire
Karen Nowiejski
Carl Shalit
Frank P. Stone**