

The Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (effective January 1, 2008)

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Council on Professionalism

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Presenters

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Agenda

This presentation will discuss the following:

1. History
2. Background on Revisions to Standards
3. Structure of Revised Qualification Standard
4. Description of Scope
5. Discussion on “Statement of Actuarial Opinion”
6. Basic Education and Experience
7. Continuing Education (CE) Requirements
8. Applicability of CE Requirements to EAs
9. Specific Qualification Standards
10. Acknowledgment of Qualification
11. Questions and Answers



History

- In 1965, members of the U.S. actuarial profession formed the American Academy of Actuaries to represent U.S. actuaries across all practice areas to reflect the voice of all U.S. actuaries on public policy issues, and to foster and maintain professionalism.
- In fulfilling its professionalism mission, one of the Academy's tasks is to promulgate and monitor the *Qualification Standards (QS)* for basic education and experience and continuing education.
- Precept 2 of the Code of Professional Conduct states in relevant part that:
“An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience, and only when the Actuary satisfies applicable qualification standards.” (emphasis added)
- The Academy's Committee on Qualifications (COQ) is charged with promulgating, and revising, as necessary, the Qualification Standards.



Background on Revisions

- The COQ and leadership of the five U.S.-based actuarial organizations believe that these revisions to the Qualification Standards reflect a broad consensus that more rigor and broader applicability are needed to keep pace with actuarial responsibilities given the complex, fast-changing, and increasingly global financial marketplace actuaries work within.



Background on Revisions

(continued)

- The current Qualification Standards became effective in April 2001.
- In November 2002, the COQ exposed a discussion draft which proposed expanding the scope of the qualification standards; the distinction being as follows:
 - 2001 QS - applies to actuaries issuing prescribed statements of actuarial opinion required by laws, rules, and regulations.
 - 2002 QS proposal - applies to all actuaries issuing statements of actuarial opinion in the United States, regardless of whether prescribed by law or otherwise.



Background on Revisions

(continued)

- In May 2004, the COQ issued an exposure draft of the qualification standards revised from the 2001 version. This version, among other things, defined a “Statement of Actuarial Opinion” (“SAO”) as “an opinion expressed by an actuary to be relied upon by the outside person or organization to whom the opinion is addressed.”
- The responses from actuaries that commented on this first exposure draft were largely in favor of the expansion of the scope of the qualification standards.



Background on Revisions

(continued)

- In January 2006, the COQ issued its second exposure draft which incorporated many comments received from the first exposure draft.
- One of the significant changes in this exposure draft was the increase in the total continuing education requirement from 24 hours every two-year period to 30 hours annually.



Background on Revisions

(continued)

- The COQ received over 200 comments from various groups and individuals on this second exposure draft, primarily concerned about the increased CE requirements.
- The COQ reviewed all comments submitted and clarified in particular the sections related to continuing education in response to certain comments from individuals, groups and leaders at the various U.S. actuarial organizations to which these revised Qualification Standards apply.



Background on Revisions

(continued)

- On May 23, 2007 the Academy Board of Directors adopted the recommendations of the COQ subject to minor clarifications which were completed in June 2007.
- The revised Qualification Standards are effective January 1, 2008.



Structure of Qualification Standards

The revised Qualification Standards are set out as follows:

- Introduction (including definitions)
- General Qualification Standard
 - Basic Education and Experience Requirements
 - Continuing Education Requirements
- Specific Qualification Standards (when necessary)
- Changes in Practice and Application (general and specific)
- Acknowledgement of Qualification (suggested language)
- Recordkeeping Requirements



Scope Expanded

- The prior Qualification Standards applied more restrictively to “Prescribed” Statements of Actuarial Opinion (PSAO). The revised Qualification Standards expand applicability of the Qualification Standards to all actuaries issuing Statements of Actuarial Opinion in the United States.
- The revised Qualification Standards do not apply to you if you do not issue Statements of Actuarial Opinion.



Scope Expanded

(continued)

- If you do not practice in the United States and do not issue SAOs that will be relied upon in the United States, then you are not required to comply with the revised Qualification Standards.
- Under Precept 2 of the Code of Professional Conduct you will need to be mindful of whether you must meet another jurisdiction's qualification standards.



Statement of Actuarial Opinion

- “Statement of Actuarial Opinion” is defined in the revised Qualification Standards as “an opinion expressed by the 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 “[p]rofessional 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.”



Statement of Actuarial Opinion

(continued)

- Appendix 1 to the revised Qualification Standards sets forth various examples of what constitutes an SAO and what does not constitute an SAO.
- Section I(a) of Appendix 1 of the revised Qualification Standards states that “Internal communications within a company, firm or governmental agency may or may not be an SAO depending on whether or not the internal communication expresses an actuarial opinion and whether or not it is intended to be relied upon.”



Statement of Actuarial Opinion

(continued)

- **Section I(b) of Appendix 1 of the revised Qualification Standards states the following:**
 - 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.



Statement of Actuarial Opinion

(continued)

- 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.



Basic Education and Experience Requirements of General Qualification Standard

Before issuing an SAO, an actuary must meet the following three 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.



Additional Basic Education and Experience Requirement to Issue SAOs in Specialty Track

The revised standards also require the actuary to satisfy one of the 3 requirements below for issuance of SAOs in an area of practice covered by a specialty track offered by SOA, or covered by exams of the CAS or ASPPA:

- 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



Additional Basic Education and Experience Requirement to Issue SAOs in Specialty Track

(continued)

- 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.



Additional Basic Education and Experience Requirement to Issue SAOs in Specialty Track

(continued)

- Specialty tracks offered by the SOA currently include Enterprise Risk Management, Finance, Health, Group Life and Managed Care, Investments, Individual Life and Annuity, and Retirement Benefits.
- Once an actuary is qualified to issue an SAO, the actuary's basic education and experience requirement is met "forever"; therefore future changes in the education system do not apply retroactively; consequently, people who are currently qualified under the current basic education and experience requirements meet the basic education and experience requirements under the revised Qualification Standards.



Applicability to Enrolled Actuaries

- Enrolled Actuaries (EAs) are deemed to meet the basic education and experience requirement in the pension practice area.



New Three-Year Experience Requirement

- The revised Qualification Standards contain a new provision that requires “three years of responsible actuarial experience” to be deemed to be qualified.
- It is recognized that there will be situations where, for example, an ASA or a FSA, who has not yet met the three-year experience requirement, will be preparing SAOs for a supervisor/manager or another actuary in the organization. In these situations, it will be necessary for a qualified actuary to review the work of such actuary and take responsibility for that work.



Continuing Education Requirements

- **30 CE Hours** – Actuaries subject to the revised Qualification Standards must complete and document at least **30 hours** each calendar year of relevant CE.
- **Organized Activity Requirement** – At least six (6) hours must be from “Organized Activities.”
- **Professionalism Requirement** – At least three (3) hours must be on professionalism topics.
- **Cap on General Business Courses** - General business courses are limited to three (3) hours per year.



Continuing Education Requirements

(continued)

- The CE requirement will typically be met in the calendar year preceding the year in which the actuary issues the SAO.
- If an actuary does not meet the CE requirement in the preceding year, the shortfall can be met in the year the SAO is issued, but must be met before the SAO is issued.
- A CE hour is defined as 50 minutes.



Continuing Education Requirements

(continued)

- Continuing education as “**relevant**” if
 - (1) it broadens or deepens an actuary’s understanding of one or more aspects of the work an actuary does;
 - (2) the material expands an actuary’s knowledge of practice in related disciplines that bear directly on an actuary’s work;
or
 - (3) it facilitates an actuary’s entry into a new area of practice.



Continuing Education Requirements

(continued)

- **Ultimately, it is an actuary's responsibility to make a reasonable, good-faith determination of what continuing education opportunities will enhance an actuary's ability to practice in a desired field.**



Continuing Education Requirements

(continued)

- “Organized activities” involve interaction with actuaries or other professionals working for different organizations.
- Examples of organized activities include, but are not limited to, conferences, seminars, webcasts, in-person or online courses, or committee work that is directly relevant to the area of practice of the subject of the Statement of Actuarial Opinion.



Continuing Education Requirements

(continued)

- In-house meetings can constitute “organized activities” by using outside speakers, otherwise in-house meetings without an outside speaker could qualify as an “other activity” for CE credit purposes.
- “Outside speaker” does not include someone employed by a company working at a different location.
- The same number of “Organized activities” are required under the revised Qualification Standards as were required under the 2001 Qualification Standards, namely six (6) CE credits.



Continuing Education Requirements

(continued)

- CE hours in excess of the annual requirement may be carried forward one year.
- An actuary may carry forward organized activity credits that exceed six hours in a calendar year to the next calendar year provided the actuary has met and exceeded the annual requirement for that calendar year.
- Example – an actuary earns 36 hours of CE credit in 2009, of which 12 hours are from organized activities. 6 hours of organized activities can be carried over to 2010.



Continuing Education Requirements

(continued)

- An actuary earns 30 hours of CE credit in 2009, of which 12 hours are from organized activities, and 30 hours of CE credit in 2010, of which none are from organized activities. Has the CE requirement been met?



Continuing Education Requirements

(continued)

- **“Other activities”** – include, but are not limited to:
 - reading actuarial literature, statutes or regulations,
 - reading other books, papers or articles on relevant technical or professional topics,
 - writing professional papers or articles,
 - listening to tapes of actuarial meetings or other relevant seminar or conferences,
 - in-house meetings,
 - studying for actuarial exams,
 - drafting actuarial exam questions, and
 - preparing to speak or lead a discussion at a continuing education activity.



Continuing Education Requirements

(continued)

- **Professionalism topics** – include, but are not limited to, the following:
 - studying, reviewing, or providing input on an Exposure Draft of an ASOP;
 - studying or reviewing the Code of Professional Conduct; or
 - serving on the ASB or a professionalism committee.
- The professionalism component may be satisfied by either organized activities or other activities.
- Excess professionalism credits may be carried forward if the annual CE requirement has been met and exceeded.



Continuing Education Requirements

(continued)

- **General Business and Consulting Skills** –include, but are not limited to, the following:
 - client relationship management;
 - presentation skills;
 - communication skills;
 - project management; and
 - personnel management.



Continuing Education Transition Rules

- For SAOs issued in 2008, the CE requirements of the current Qualification Standards apply.
- For SAOs issued in 2009, the total number of CE hours required in 2008 is 24 rather than 30.
- For SAOs issued in 2010 and later, the 30 hour requirement applies.
- Excess CE hours in 2007 may be carried forward to 2008 if the credits meet the definition of relevant CE under the revised Qualification Standards (including organized activities and professionalism).



Applicability To Enrolled Actuaries

- Under current (2001) Qualification Standards an Enrolled Actuary is deemed to meet the continuing education requirements under the qualification standards for the issuance of PSAOs in the pension practice area if he or she complies with regulations issued by the Joint Board for the Enrollment of Actuaries.



Applicability To Enrolled Actuaries

(continued)

- Under the revised Qualification Standards, Enrolled Actuaries who issue Statements of Actuarial Opinion “related to retirement plans to which ERISA applies” will be deemed to meet the new Qualification Standards requirements for continuing education if they satisfy the Joint Board CE requirements, but only through 2010.
- Commencing in 2011, this exemption will apply only to Form 5500 Schedule B certifications and other government-required forms. For any other SAO, Enrolled Actuaries must meet all of the revised CE requirements including 30 hours annually.



Applicability To Enrolled Actuaries

(continued)

- EAs who issue SAOs other than those specifically exempted must meet the CE requirements under the Qualification Standards.
- Much discussion ensued in relation to this issue, and the majority consensus was that beginning in 2011, Enrolled Actuaries subject to the Code of Professional Code should meet the same qualification standards that all other members are required to meet in issuing SAOs.



Specific Qualification Standards

- The requirements for the Specific Qualification Standards have not substantially changed.
- They primarily apply to actuaries who issue the following SAOs:

NAIC Life and A&H Annual Statement

NAIC Property and Casualty Annual Statement

NAIC Health Annual Statement



Specific Qualification Standards

(continued)

- The only change to the basic education requirement of this Section is the addition of reinsurance on the property/casualty list.
- The continuing education requirements have increased from 12 to 15 CE per calendar year, with a minimum of six from “organized activities.”
- The CE requirements of the Specific Qualification Standards also satisfy the General Qualification Standards CE requirements and are not in addition to the 30 hour requirement.



Acknowledgment of Qualification

- ASOP 41 defines actuarial communications and provides guidance when communications are required between a Principal and actuary. In-house actuaries may wish to consider making a formal acknowledgment to their Principals on an annual basis.
- The proposed acknowledgment language set forth in Section 5 is suggested language.
- The acknowledgment is not required on preformatted forms such as Schedule B (Form 5500) in connection with Enrolled Actuary qualifications.



Acknowledgment of Qualification

(continued)

- Such acknowledgment is not required on every single SAO communicated to a third party; the intent of this Section is for the recipient of the SAO to have knowledge that the actuary is qualified. Once the recipient of the SAO has such knowledge, the acknowledgment need not be repeated.
- Section 5 states: an oral SAO is typically part of the cumulative communications and would not require a separate acknowledgment of qualification.



Questions and Answers

- Questions from the audience.



FAQs about the Revised Qualification Standards may be found on the Academy website:

<http://actuary.org/qualstandards/qualfaqs.asp>



For information on obtaining a certificate of attendance
for CE credit as an Enrolled Actuary please go to

<http://www.ccactuaries.org/events/qswebcast200712/>

