2005
RECORD
AMERICAN ACADEMY *of* ACTUARIES

ACADEMY YEAR IN REVIEW

Focus on the Future

What exactly do those initials MAAA mean? They have always stood for professional accomplishment. But, increasingly, they stand for something a bit more—membership in an organization that is forging exciting new directions for the entire profession.

What's in a name? Consider:

- Beginning in August, actuaries filing an attestation of actuarial equivalence for the retiree drug subsidy option offered under the new Medicare Part D program must show proof of their status as an Academy member.
- In an April editorial, the *New York Times* "wholeheartedly" endorsed the notion, growing out of a request to Congress from the Academy and other U.S. actuarial organizations, that the chief actuary of Medicare or of Social Security should be a member of the Academy.
- Over the past year, the Academy was the lead representative for the U.S. actuarial profession in ongoing meetings with Sir Derek Morris, who was conducting an inquiry into practices of the U.K. actuarial profession.
- Following up on an April request from the NAIC, the Academy in August delivered a report on risk transfer in P/C reinsurance that breaks new ground on defining finite risk.
- In October, the NAIC adopted C-3 Phase II instructions, including the Academy's report and recommendations, a major milestone in ongoing work by Academy volunteers to provide the basis for principle-based regulation of insurance products.

Over the course of the past 12 months and under the direction of its new executive director, Kevin Cronin, the Academy

Treasury Secretary John Snow speaking at the Academy's 2005 spring meeting.

From left, Thomas Terry, Kenneth Kent, and Ron Gebhardtsbauer pause before their Feb. 28 meeting at the White House.

continued to raise its profile in actuarial, legislative, public policy, academic, and media circles. It has done this in most of the usual ways—and in some different ways as well.

Policy Outreach

The Academy provided analysis on a variety of emerging and urgent issues, both within and beyond the profession, through its publications and comment letters. In the past 12 months, the Academy published nine issue briefs in the health and pension area and a pension white paper. Academy committees and work groups made 42 reports to the NAIC and participated in countless hours of conference calls. Similarly, the Academy posted 43 letters commenting on legislative and regulatory matters.

Supplementing its written output, the Academy testified on Capitol Hill five times in the past year, four times for Senate and House hearings on pension reform or Social Security reform and once for a hearing on medical malpractice insurance. Academy members also offered testimony on pension issues before the Department of Labor's ERISA advisory council and the Internal Revenue Service.

The Academy used a more informal setting to bring its message to Capitol Hill staffers and other policy-makers by sponsoring four Capitol Hill luncheon briefings, one on funding issues facing Medicare and Social Security, one on risk pooling in health plans, one on rising health care costs, and one in conjunction with the Society of Actuaries (SOA) on retirement planning.

The annual Capitol Hill visits conducted by the Academy's Health and Pension practice councils expanded this year to include meetings with policy-makers at the White House, the Treasury Department, the Labor Department, the Centers for Medicare and Medicaid Services (CMS), the Congressional Budget Office, the Government Accountability Office, the Congressional Research Service, the Pension Benefit Guaranty Corp., and the Medicare Payment Advisory Commission. Separately, members of the Academy's Risk Management and Financial Reporting Council met with the American Institute of Certified Public Accountants, the Securities and Exchange Commission, the Financial Accounting Standards Board, and the Public Company Accounting Oversight Board.

Public Interface

When President Bush announced that Social Security reform was going to be a high priority of his second term, many journalists turned to the Academy for objective, non-partisan analysis. As a result, the Academy posted a record amount of media-relations activity this year. Through the end of September, the Academy was quoted or cited in nearly 400 stories in newspapers and the trade press, or on television or radio—a 44 percent increase over last year. At 70 million, the number of media impressions (combined readers,

2004–2005
Academy Officers

President
Robert Wilcox

President-Elect
Peter Perkins

Secretary-Treasurer
John Parks

Vice Presidents
Michael Abroe
Donna Claire
Burt Jay
Ken Kent
Mary D. Miller
Geoffrey Sandler

Ron Gebhardtsbauer speaks at a February media briefing on Social Security reform.

Karen Bender discusses health risk pooling at a July Capitol Hill briefing.

viewers, and listeners) generated by the Academy through October has surpassed the 2004 total by 20 million. And Web impressions more than doubled, reaching 106 million.

Academy Senior Pension Fellow Ron Gebhardtsbauer became a major source for the media, regularly appearing in articles about Social Security or pension funding reform that ran in *USA Today*, the *New York Times*, the *Los Angeles Times*, and dozens of other daily newspapers. The Associated Press, MSNBC, CNN.com, National Public Radio, and the BBC also ran interviews with Gebhardtsbauer this year. Academy Senior Health Fellow Cori Uccello's Medicare expertise garnered interviews with the *Wall Street Journal*, the *New York Times*, *USA Today*, and Bloomberg News. The Academy's work on Social Security was cited three times in *New York Times* editorials and in a column in *Reader's Digest*.

October 2004–October 2005

Media Relations

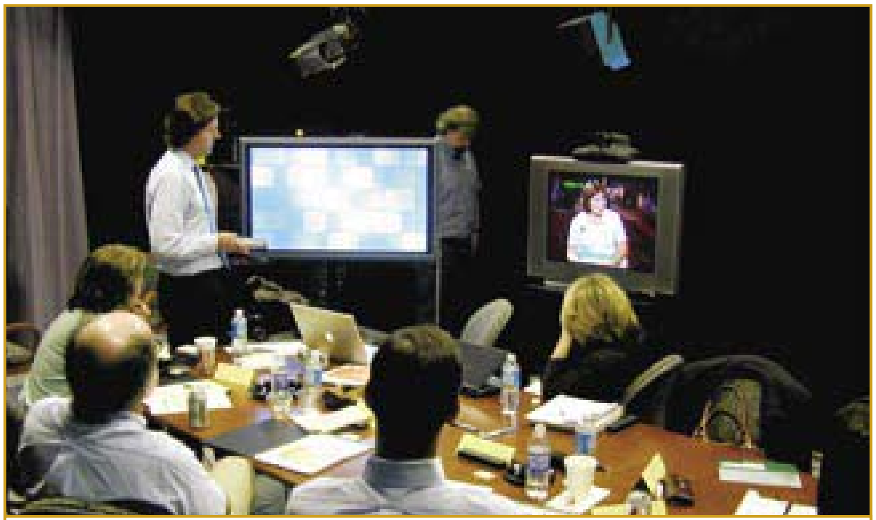
Placements …. 397

Interviews
and Media Inquiries … 171

Total Media
Impressions …. 70 million

Moving proactively on a number of issues, the Academy issued more than 30 press releases between January and September on topics ranging from disease management programs to a show of support for Federal Reserve Board Chairman Alan Greenspan's call for action on Social Security reform.

To help with the onslaught of media inquiries, the Academy continued to train members as media spokespersons on key issues. With four sessions in 2005, the Academy's official spokesperson program now has trained more than 30 individuals, including representatives from the Casualty Actuarial Society (CAS) and the SOA.



Patricia Teufel, seated left, views her interview tapes at an Academy spokesperson training session.

Academy President Robert Wilcox congratulates Donna Claire, winner of the 2005 Jarvis Farley Service Award.

Academy members are also speaking in growing numbers at meetings of actuarial clubs and outside organizations. During the first nine months of 2005, Academy members made nine presentations before audiences as diverse as the Texas County & District Retirement System, Lynchval Systems Worldwide, and the Actuaries Club of Philadelphia.

Service to the Profession

The Academy continued to enhance its meeting and seminar offerings this year. The 2005 spring meeting featured 32 sessions, including a keynote address by Treasury Secretary John Snow, the highest-ranking federal government official ever to address an actuarial meeting. At that same meeting, the Academy honored IRS actuary Paulette Tino with the 2005 Robert J. Myers Public Service Award.

Incoming Academy President Peter Perkins at the 2005 annual meeting

The Academy's 2005 Annual Meeting in October offered attendees multiple opportunities to reflect on the actuarial profession, to consider its future, and, finally, to celebrate Academy achievements at a glittering 40th anniversary banquet at the Renwick Gallery of the Smithsonian Institution, located across the street from the White House. Donna Claire, the retiring Academy vice president for life issues, received the 2005 Jarvis Farley Service Award at the annual meeting luncheon, and Peter Perkins succeeded Bob Wilcox as Academy president. The Academy's sold-out C-3 Phase II seminar in May, its property/casualty opinion-writing seminar in

More than 800 Academy members have successfully logged on through the Academy's website to verify their eligibility to file a Medicare Part D attestation.

Treasury Secretary John Snow congratulates Paulette Tino, winner of the 2005 Robert J. Myers Public Service Award, as Academy Executive Director Kevin Cronin looks on.

October, and the popular Life and Health Qualifications Seminar in November provided focused educational opportunities in different practice areas, as did seminars the Academy cosponsored with sister organizations such as the Enrolled Actuaries Meeting and the Defined Benefit Symposium in April, and the Casualty Loss Reserve Seminar and the Valuation Actuary Symposium in September.

In an effort to streamline member operations, the Academy flipped the switch on a new association management system in March. One of the first tests of the new system came in August when the Academy and CMS launched an online opt-in process to verify Academy membership for actuaries filing an attestation of actuarial equivalence under Medicare Part D. More than 800 Academy members have successfully logged on through the Academy's website to get their Academy ID numbers and send their membership information to Medicare.

This year also saw the formation of three new presidential task forces, each designed to meet particular challenges. The 2005 Federal Agenda Task Force, formed in November, was responsible for coordinating the Academy's response to major domestic policy initiatives occurring during the year. One of the task force's first actions was to sponsor a media briefing on Social Security reform at the National Press Club in Washington the day before President Bush made it a central topic in his State of the Union address. In the February briefing, Academy Senior Pension Fellow Ron Gebhardtsbauer offered reporters, public-policy experts, and industry representatives an actuarial perspective on various reform options.

The Critical Review of the U.S. Actuarial Profession (CRUSAP) Task Force, formed in May, is conducting a critical analysis of the American actuarial profession using enterprise risk management and management consulting techniques.

Focusing on such challenges as globalization, the decline of pension plans, and a changing financial-services marketplace for actuarial skills, CRUSAP's mission is to identify risks and opportunities facing the U.S. profession and to make recommendations for managing them.

The Appointed Actuary Task Force was formed in August to consider the findings of a CAS task force on actuarial credibility. The Academy's task force will also be examining recommendations emanating from the CAS study, including a recommendation that differences between management's recorded reserves and the actuary's estimate of the reserve be publicly disclosed in statements of actuarial opinion, to see which ideas could be adapted for appointed life and health actuaries, and for pension actuaries and others who make actuarial certifications. ▲

Annual meeting attendees enjoy the Academy's 40th anniversary banquet at the Renwick Gallery in Washington.

Hurricanes aside, it may have looked like a quiet year in the property/casualty arena. Don't be fooled. The Academy accomplished a considerable amount of work behind the scenes this year on issues of continuing importance to casualty actuaries.

In February, James Hurley, former chairperson of the Academy's Medical Malpractice Subcommittee, testified before the House Energy and Commerce Subcommittee on Health as legislators debated reviving medical malpractice reform initiatives that stalled in previous sessions of Congress. Any action would be timely, Hurley told the subcommittee, noting that overall profitability ratios for insurance companies writing medical malpractice are the worst they have been in more than 15 years. As part of additional written testimony for the subcommittee in March, Hurley suggested that it was a misconception that soaring medical malpractice rates are simply the result of companies trying to recoup stock market losses or that companies are reporting losses to justify rate increases.

James Hurley, left, greets Rep. Nathan Deal (R-Ga.) following his House subcommittee testimony.

Speaking to different audiences on the topic, the Academy in April published a paper on factors to be considered in creating medical malpractice closed-claim databases for use by both actuaries and non-actuaries. And Kevin Bingham, Hurley's successor as subcommittee chairperson, represented the Academy in a July Washington roundtable on medical malpractice that was sponsored by the Alliance for Health Reform. The subcommittee also issued a statement in October criticizing a July report by the Center for Justice and Democracy. In its statement, the subcommittee called the report "incomplete, actuarially unsound, and misleading" and encouraged legislative and regulatory policymakers to ask their state insurance department actuaries for further clarification.

Weighing in on another federal issue, the Academy's Extreme Events Committee sent a letter in August disagreeing with some aspects of a Treasury Department assessment of the effects of the Terrorism Risk Insurance Act of 2002, particularly with regard to limitations in loss-simulation models and the market's ability to price terrorism coverage with confidence.

On the regulatory front, the Academy's Committee on Property and Liability Financial Reporting (COPLFR) delivered a 241-page report on risk transfer in P/C reinsurance to the NAIC. The report, begun in April at the request of the NAIC, is intended to assist in an NAIC analysis of risk transfer in the context of reinsurance accounting by illustrating current and alternative practice in evaluating reinsurance transactions. COPLFR also sent the NAIC an evaluation of a bifurcation approach to reinsurance accounting and commented on a new NAIC reinsurance attestation requirement for CEOs and CFOs that becomes effective in 2006. COPLFR also issued practice guidance for actuaries helping executives comply with the new requirement.

Oct. 2004–Oct. 2005

Public Statements

12/04 practice note for statements of actuarial opinion on P/C loss reserves

12/04 report to the NAIC on proposed changes in the P/C RBC charges for preferred stock holdings

1/05 letter to the SEC on disclosure for P/C liabilities in financial reporting

3/05 follow-up commets to members of the House Energy and Commerce Subcommittee about Academy testimony on medical liability reform

3/05 response to questions about medical liability reform posed by members of the House Energy and Commerce Health Subcommittee

3/05 letter to NCOIL summarizing the current state of the U.S. catastrophe insurance marketplace

3/05 guidance from COPLFR for insurers writing workers' comp coverage in California

4/05 paper on factors to be considered in using medical malpractice closed-claim databases

5/05 suggested questions to be used in a possible NAIC survey on risk transfer

5/05 comments to CAS on draft principles for loss reserves

6/05 comments to NAIC on proposed CEO and CFO disclosure requirements for finite risk reinsurance transactions

6/05 addendum to a 2004 report to the NAIC on the feasibility of P/C risk-based capital trend testing

6/05 comments to NAIC on a proposal to change SSAP 62 by splitting accounting for some reinsurance transactions into two parts

8/05 report to NAIC on current practices in risk transfer in P/C reinsurance and on alternative approaches

8/05 letter to Congress commenting on a Treasury Department study of TRIA

9/05 letter to Senate about the effects of an asbestos bill on the workers' comp system

Events

2/05 James Hurley testimony at a House Energy and Commerce Health Subcommittee hearing on medical liability reform

9/05 Casualty loss reserve seminar

10/05 Seminar on P/C loss reserve opinions

For more information, visit www.actuary.org/casual.asp.
Underlined documents are on the Academy website.

In the professionalism arena, COPLFR facilitated two popular seminars on loss reserve opinions in October. One attendee called the sold-out seminar "the best continuing-ed seminar I have had in years." The seminars, directed at experienced appointed actuaries, covered recent regulatory changes rather than loss reserve techniques. The Academy also joined a new interorganizational steering committee on actuarial credibility formed by the Casualty Actuarial Society (CAS). The steering committee will be following up on recommendations included in a May report by a CAS task force.

Health Council

AMERICAN ACADEMY *of* ACTUARIES

Over the course of the past year, provisions of the 2003 Medicare Modernization Act finally began to kick in. The Academy kept pace every step of the way.

After commenting to the Centers for Medicare and Medicaid Services (CMS) last fall on proposed regulations under the new law, Academy volunteers discussed the topic further in February with congressional staff and policy-makers at CMS, the Medicare Payment Advisory Commission, the Government Accountability Office, the Congressional Budget Office, and other agencies as part of annual Academy Capitol Hill visits. (Other topics covered during the two-day visits: issues related to the uninsured, association health plans [AHPs], Medicaid, and long-term care.) Over the course of the summer, the Academy and the Conference of Consulting Actuaries co-sponsored several audio seminars on actuarial equivalence certifications under Medicare Part D and advanced topics of Medicare Part D. And in August, the Academy, in conjunction with the CMS, unveiled an online system for actuaries who attest to the actuarial equivalence of retiree health plans seeking a Medicare Part D subsidy. Membership in the Academy is a legal requirement for actuaries filing an attestation.

From left, Rep. Paul Ryan (R-Wis.) discusses medical reinsurance with Robert Bachler and Cori Uccello.

Despite this activity, other aspects of Medicare reform remained on the Academy's radar screen. February marked the publication of a new issue brief, *Medicare: Next Steps*, that maps out what areas policy-makers need to focus on next to ensure Medicare's continuing solvency. Solvency came up again in April when Academy Senior Health Fellow Cori Uccello and Academy Senior Pension Fellow Ron Gebhardtsbauer spoke to congressional staffers and other policy-makers on solvency issues as part of a Capitol Hill briefing on the 2005 trustees reports on Medicare and Social Security.

Nor did the Academy neglect other health policy issues. In September, the Academy published a backgrounder for legislators and other policy-makers who are evaluating the possibility of offering government-sponsored reinsurance to health plans as part of an effort to reduce soaring health care premiums. The backgrounder grew out of a July meeting on the topic between Uccello and Rob Bachler, a member of the Academy's Medical Reinsurance Work Group, and Rep. Paul Ryan (R-Wis.). This year also saw the publication of issue briefs on a variety of topics, including mental health parity, medical reinsurance, disease management, and association health plans. In conjunction with this last, the Academy hosted a July Capitol Hill briefing for legislative staff, journalists, and other policy-makers on the basics of risk pooling.

On the state front, the Academy provided the NAIC with proposed revisions to the long-term care experience reporting instructions and forms. Based on a charge from the NAIC, the Academy also provided proposed health risk-based capital (RBC) instruction, formula changes, and risk factors that will aid in the implementation of Medicare Part D beginning in 2006. The Academy continued its work on stop-loss RBC issues and provided a U.S. perspective on these and other topics through letters to international organizations. And during the course of the year, Academy work groups drafted practice notes on a variety of subjects, including small-group medical business, individual major medical business, statutory reserves for individual disability income insurance, and actuarial certification of rates for Medicaid managed care and for the retiree drug subsidy. ▲

Oct. 2004–Oct. 2005

Public Statements

10/04 comments to CMS on actuarial equivalence issues in proposed Medicare drug regulations

10/04 comments to CMS on Medicare Advantage issues in proposed Medicare drug regulations

10/04 comments to CMS on various issues concerning the proposed Medicare drug regulations

11/04 letter to the NAIC on draft revisions of the Health Insurance Reserves Model Regulation

12/04 issue brief, Mental Health Parity: Often Separate, Usually Unequal

12/04 draft practice note, Small Group Medical Business

1/05 issue brief, Medical Reinsurance: Considerations for Designing a Government-Sponsored Program

1/05 draft practice note, Individual Major Medical Business

2/05 issue brief, Medicare: Next Steps

3/05 issue brief, Medicare's Financial Condition: Beyond Actuarial Balance

3/05 issue brief, Frequently Asked Questions on Association Health Plans

3/05 letter to Congress offering the Academy's assistance as a resource on Medicare issues

4/05 issue brief, Disease Management Programs: What's the Cost?

4/05 draft practice note, Statutory Reserves for Individual Disability Income Insurance

5/05 proposal to NAIC of long-term care loss experience exhibit forms, with instructions and examples

5/05 letter to HHS advisory committee on genetic information

6/05 status report to NAIC on work of Health RBC Subgroup on RBC formula and instruction changes for Medicare Part D coverage

7/05 draft updated practice note, Medicare Supplement

7/05 letter to lawmakers opposing proposal to authorize non-actuarial statements of opinion for health reserves

8/05 practice note, Actuarial Certification of Rates for Medicaid Managed Care Programs (August 2005)

8/05 draft practice note, Attestation of Actuarial Equivalence for Plan Sponsors Accepting a Federal Subsidy under the Medicare Drug Program

9/05 memo to the NAIC with proposed health RBC instruction and health RBC formula changes, proposed life RBC instruction and life RBC formula changes, and explanatory slides

9/05 letter to the NAIC with proposed revisions to the LTC experience reporting instructions and forms, as well as pertinent examples

9/05 backgrounder on issues that should be considered in any effort to design a government-sponsored medical reinsurance program

Events

2/05 Capitol Hill visits to congressional offices, the Labor and Treasury departments, the Medicare Payment Advisory Commission, the CBO, the CMS, the CRS, and the GAO

4/05 Capitol Hill briefing on Medicare and Social Security

7/05 Capitol Hill briefing on risk pooling

For more information, visit www.actuary.org/health.asp. Underlined documents are on the Academy website.

Life Council

AMERICAN ACADEMY *of* ACTUARIES

In October, the NAIC finally adopted risk-based capital (RBC) C-3 Phase II instructions, including the Academy's report and recommendations. It was a triumphant moment for Academy volunteers who have spent years developing a method for determining capital adequacy using stochastically generated economic scenarios and actuarial professional judgment.

Phased in effective the end of 2005, the C-3 Phase II instructions and report are an important component of the Academy's continuing effort to encourage more principle-based regulation rather than rely on formulas that actuaries must follow. Along those lines, the Academy in July presented the NAIC with a first draft of what will eventually be a comprehensive report on the conceptual framework of a principle-based approach for life insurance products. At the same time, Academy members have been meeting with individual state insurance regulators over the course of the past year to gather comments and feedback on the principle-based approach and to increase the regulators' understanding of the concept. Similarly, the Academy made the lead presentation at an August informational hearing conducted by the NAIC on replacing formulaic reserving with a principle-based system.

The Academy has also been busy ensuring that working actuaries are up to speed on C-3 Phase II. In anticipation of final passage, the Academy published a practice note in September that includes details on products covered under C-3 Phase II, calculation of C-3 Phase II RBC, and implications for insurers. Earlier in the year, the Academy hosted an educational seminar on C-3 Phase II in conjunction with the Academy's May spring meeting.

While C-3 Phase II has consumed much of the attention this year, the Academy is proceeding forward with many other projects as well. Highlights include practice notes on several topics, including one that updates several 1995 practice notes on asset adequacy analysis practices used by appointed actuaries, and another on the application of the Financial Accounting Board's Derivatives Implementation Group Statement 133 Implementation Issue No. 36 to many modified coinsurance and related insurance transactions.

Looking forward, the Academy and the Society of Actuaries this summer agreed to an NAIC request to develop a new valuation table (reference) to reflect the preferred underwriting that has developed since the 1990s. The joint effort will support the new standards needed to reflect various levels of preferred mortality for product valuation.

David Sandberg, left, and William Hines lead a session on C-3 Phase II at the Academy's spring meeting.

Oct. 2004–Oct. 2005

Public Statements

11/04 summary to NAIC for a draft variable annuity practice note

12/04 updated draft for NAIC of proposed actuarial guideline for variable annuity reserving

12/04 attachments to draft actuarial guideline for variable annuity reserving

12/04 letter to NAIC opposing a standard scenario reserve approach for variable annuity reserving

12/04 comments to the NAIC on a proposed C-3 Phase II smoothing approach

12/04 practice note on asset adequacy analysis

12/04 report to NAIC on RBC requirements for variable annuities

12/04 progress report to NAIC on work of universal life work group

1/05 practice note on applicability of FAS 133 to many modified coinsurance and related insurance transactions

3/05 recommendations to NAIC for setting regulatory RBC requirements for variable annuities and similar products

3/05 presentation to NAIC on required review of principle-based valuation options

3/05 letter to NAIC opposing use of standard RBC scenario as minimum standard

3/05 revised draft for NAIC of a proposed actuarial guideline for variable annuity reserving

3/05 attachments to revised draft actuarial guideline for variable annuity reserving

3/05 summary of the suggested revisions

3/05 report to NAIC on Modco status

3/05 progress report to NAIC on work of Universal Life Work Group

3/05 presentation to NAIC from Universal Life Work Group

3/05 report to NAIC on general nonforfeiture revision

3/05 changes to Dec. 2004 report to NAIC on variable annuities

4/05 updated practice note on AICPA statement of position 03-1

4/05 update of C-3 Phase II project, including RBC and reserves

6/05 recommendations to NAIC on regulatory review framework

6/05 C-3 Phase II report

6/05 draft actuarial guideline on variable annuity reserving

6/05 attachment to draft actuarial guideline on variable annuity reserving

6/05 status report to NAIC on the Modco project

6/05 updated report to NAIC on nonforfeiture improvement

6/05 review of prospective Section 6 test in model standard nonforfeiture law

6/05 report to NAIC on draft framework for principle-based life reserve valuation

6/05 slides from presentation to NAIC on draft framework for principle-based life reserve valuation

9/05 updated draft framework for principle-based life reserve valuation (Main report, plus slides describing initial modeling results)

9/05 practice note for the application of C-3 Phase II and Actuarial Guideline VACARVM

Events

5/04 C-3 Phase II seminar

8/04 presentation at NAIC informational hearing on principle-based regulation

For more information, visit www.actuary.org/life.asp.

Underlined documents are on the Academy website.

Pension Council

AMERICAN ACADEMY *of* ACTUARIES

With Social Security considered by the Bush administration as one of its top agenda items and Congress focusing on the need for long-term pension funding reform, the Academy has been involved in an epic amount of activity this past year. In addition to producing comments and analysis on a number of pension-related issues, the Academy has worked behind the scenes to answer policy-makers' questions as legislation is crafted.

Shortly after Congress last year approved a two-year temporary replacement of the 30-year Treasury rate as the benchmark for pension liability valuation, the Academy convened actuaries from different backgrounds and perspectives to formulate guiding principles for overall pension reform. Published in January and February, those principles are now visible in both administration and congressional reform proposals as a result of Academy initiatives to distribute them in meetings with policy-makers, lobbying organizations, and government agencies engaged in pension reform. Notably, congressional measures introduced this year take into account a number of the Academy's principles and at the same time reflect some of the Academy's reservations about certain elements in the administration's proposal.

Ron Gebhardtsbauer testifies on pension reform at an April Senate subcommittee hearing.

The need for a different type of publication surfaced when the Pension Council conducted its annual Capitol Hill visits in February, meeting with congressional staff and representatives from the White House, the Labor and Treasury departments, the Congressional Budget Office, the Government Accountability Office, and the Pension Benefit Guaranty Corp. (PBGC). In response to policy-makers' questions about specific areas of funding reform on which little basic information was available, the council developed Academy fact sheets to provide concise information on a given topic. The Academy produced two fact sheets this spring, one on credit balances and the other on the PBGC and United Airlines.

In the interest of encouraging debate, the Academy redistributed its existing publications on many aspects of Social Security reform, including individual account design questions, changes to the benefit formula or taxation of benefits, and retirement age adjustment. The Academy also updated information for a revised guide to Social Security reform options, held a February media briefing on Social Security reform, and in April sponsored a Capitol Hill briefing on the 2005 trustees reports on Medicare and Social Security.

Finally, the Academy continued to push for clarification in ongoing regulatory matters that affect pension actuaries. In July, Ken Kent, then the Academy's vice president for pension issues, met with members of the Department of Labor's Advisory Council on Employee Welfare and Pension Benefits to discuss pension distribution policy. In August, Ethan Kra, a member of the council, testified at an Internal Revenue Service (IRS) public hearing on proposed revisions to Internal Revenue Code Sec. 415 limits on benefits and contributions for qualified plans. Also in August, Donald Segal, the Academy's incoming vice president for pension issues, testified at an IRS hearing on re-proposed regulations governing the disclosure of the relative value of optional forms of benefits under defined benefit plans. ▲

Oct. 2004–Oct. 2005

Public Statements

10/04 letter to ASB on a proposed pension valuation standard

11/04 letter to the Economist on the role of U.S. actuaries in determining investment returns for pension plans

11/04 letter to the Wall Street Journal on principal security in cash balance plans

1/05 issue brief, Principles of Pension Funding Reform for Multiemployer Plans

1/05 letter to IRS on a delay of amortization relief under IRC 412(e)

2/05 suggested funding reform principles for single-employer pension plans

2/05 letter to IRS on proposed phased retirement regulations

3/05 letter to the Labor Department on proposed multiemployer rules for annual funding notices

3/05 backgrounder on credit balance options for DB pension funding reform

3/05 letter to IRS on crediting contributions for multiemployer pension plans

3/05 analysis of the Bush administration's proposal for single-employer pension funding

3/05 testimony for a House Ways and Means subcommittee hearing on single-employer pension funding reform

4/05 issue brief, An Actuarial Perspective on the 2005 Social Security Trustees' Report

4/05 testimony for a Senate hearing on the PBGC and pension funding reform

5/05 letter to Sen. Ted Kennedy responding to questions about Academy PBGC and pension funding reform testimony

5/05 letter to the IRS about communication under relative value regulations

5/05 letter to the IRS about applying Circular 230 to actuarial work

5/05 fact sheet on the effects of United Airlines' recently terminated pension plans on the PBGC's deficit

6/05 testimony for a House hearing on strengthening Social Security

7/05 letter to House leaders about the proposed Pension Protection Act

7/05 presentation to ERISA advisory council about distribution options

8/05 letter to FASB about reconsideration of FAS 87

8/05 letter to IRS on IRC Section 415 regulations about benefit and contribution limitations

8/05 white paper on cash balance plans

8/05 updated analysis on Bush administration retirement-savings proposals

Events

11/04 Joint Academy and SOA Joint Task Force on Financial Economics roundtable

2/05 media briefing on Social Security

2/05 Capitol Hill visits to congressional offices, the Treasury Department, the Labor Department, the White House, the CBO, the GAO, and the PBGC

3/05 Ron Gebhardtsbauer testimony on pension funding reform to the House Ways and Means Subcommittee on Select Revenue Measures

3/05 Ron Gebhardtsbauer participation in pension reform forum sponsored by the Senate Finance Committee and the Senate Health, Education, Labor, and Pensions Subcommittee

4/05 Capitol Hill briefing on Medicare and Social Security

4/05 Defined Benefit Symposium

4/05 Ron Gebhardtsbauer testimony on the PBGC and pension reform before the Senate Health, Education, Labor, and Pensions Subcommittee

6/05 Ron Gebhardtsbauer testimony on Social Security reform before the House Ways and Means Subcommittee on Social Security

6/05 Capitol Hill briefing with SOA on retirement planning

7/05 Ken Kent meets with Department of Labor advisory council on pension issues

8/05 Ethan Kra testifies before IRS on Section 415 limits

8/05 Donald Segal testifies before IRS on relative value regulation

For more information, visit www.actuary.org/pension.asp.
Underlined documents are on the Academy website.

Risk Management and Financial Reporting Council

Over the course of the past year, the Academy has monitored a wide variety of issues, from the rapid development of insurance regulatory principles and standards on the international level to the global convergence of accounting standards, the continuing evolution of enterprise risk management, and the possibility of federalized insurance supervision.

In the area of federal regulation of insurance, the Academy continues to monitor the development of the State Modernization and Regulatory Transparency (SMART) Act in the House Financial Services Committee. The Academy also commented on an optional federal charter plan proposed by the Optional Federal Charter Coalition, an ad hoc organization whose members include the American Bankers Association, the American Council of Life Insurers, the American Insurance Association, and the Financial Services Roundtable. In March, the Academy met with representatives of the Government Accountability Office to discuss actuarial work, insurance supervision issues, and the impact of actuaries on product development and pricing. The Academy followed up on questions that arose at the meeting with further comments in June. In an August letter to the coalition, Academy President Bob Wilcox urged that any federal insurance proposal include an Office of the Chief Actuary component and define a "qualified actuary" as a member of the Academy.

Through its Financial Reporting Committee, the Risk Management and Financial Reporting Council has established a pattern of meeting annually with various accounting and auditing stakeholders. The committee met with representatives from the Financial Accounting Standards Board in October, with the American Institute of Certified Public Accountants in April, and with the Public Company Accounting Oversight Board and with the Securities and Exchange Commission in June.

In the international arena, the Academy was involved in a tremendous amount of activity. In March, the Academy commented on International Actuarial Association practice guidelines for actuaries working with new international accounting standards. The Academy is also working with the Actuarial Standards Board to adapt those guidelines for the United States as a series of practice notes. In August, the Academy commented to the International Association of Insurance Supervisors (IAIS) on the development of various global standards for assessing insurer solvency and met with representatives of the NAIC to discuss its approach toward both those standards and related accounting guidance from the International Accounting Standards Board.

In recognition of the emerging importance of enterprise risk management (ERM), the Academy formed an ERM task force in January that offers all North American actuarial organizations a forum for discussing various ERM-related initiatives under consideration.

Standing from left, Financial Reporting Committee members Ralph Blanchard, Henry Siegel, William Sohn, Ethan Sonnichsen, Burt Jay, and Errol Cramer. Seated, Nancy Watkins and Darrell Knapp.

Oct. 2004–Oct. 2005

Public Statements

10/04 comments to the IASB on its proposed standard about financial instrument disclosure

12/04 comments to the IAIS on its paper, A New Framework for Insurance Supervision

2/05 letter to IAA about draft practice guidelines for insurance contract financial reporting

2/05 letter to IAA about draft practice guidelines on current estimates

2/05 letter to IAA about draft practice guidelines on investment contract measurement

3/05 letter to IAA on draft practice guidelines on measurement contracts

3/05 letter to IAA on draft practice guidelines on current estimates

3/05 letter to IAA on draft practice guidelines on actuarial practice

3/05 letter to IAA on second set of draft practice guidelines for international financial reporting standards

6/05 letter to GAO on the role of actuaries in insurance

8/05 comment letter on the IAA report, A Strategy for the IAA

8/05 letter to Optional Federal Charter Coalition on the role of actuaries under federal insurance regulation

8/05 letter to the IAIS on suitable forms of capital supervisory standard

Events

10/04 meeting with FASB

3/05 meeting with GAO

4/05 meeting with AICPA

6/05 meeting with PCAOB

6/05 meeting with SEC

For more information, visit www.actuary.org/financial.asp.

Underlined documents are on the Academy website.

Council on Professionalism

Britain's Equitable Life scandal and the resulting investigation by Sir Derek Morris have had the effect of focusing attention on actuarial professionalism on both sides of the Atlantic.

From the outset of Morris' inquiry into the U.K. actuarial profession, the Academy served as an important resource. In November 2004, Morris attended a meeting of the International Actuarial Association in Washington and met with Academy President Bob Wilcox to discuss the U.S. profession's public policy activities, particularly Academy efforts to reach out to legislators, regulators, and interested parties (including the general public) on issues with actuarial implications such as Social Security, Medicare, life insurance sales illustrations, and pension reform. Wilcox and Morris also discussed aspects of U.S. actuarial professionalism, focusing on the standard-setting process, the counseling activities of the ABCD, and elements of the Code of Professional Conduct that specifically address the public interest. Two months later, Wilcox traveled to London for further discussion on issues such as discipline, litigation risk facing the profession, and the ways actuaries operate in statutorily reserved roles. The Academy also provided extensive written comments on the interim findings of the Morris review when they were released in February 2005.

At the same time, the Academy didn't neglect continuing efforts to strengthen U.S. actuarial professionalism, publishing discussion papers on the framework of actuarial professionalism and on disclosure under the code. Similarly, the Academy in November published updated applicability guidelines to assist actuaries in determining which standards need to be reviewed and satisfied when completing a professional service.

In an effort to get a better sense from working actuaries of how professionalism affects them in their daily duties, the Academy circulated a survey designed to measure familiarity with the standards, the code, the qualification standards, and the work of the ABCD. More than 1,800 actuaries responded to the survey, whose results were discussed at the Academy's 2005 spring meeting in May.

A separate educational initiative of the Academy, the annual Life and Health Qualifications Seminar, continued to be a popular draw, selling out for the second year in a row. And the Academy expanded continuing education opportunities in professionalism by offering a Professional Standards Seminar in April in conjunction with the annual Enrolled Actuaries Meeting.

Oct. 2004–Oct. 2005

Public Statements

10/04 discussion paper on the framework of actuarial professionalism

11/04 new applicability guidelines

2/05 response to interim report of the Morris review of the U.K. actuarial profession

3/05 letter to lawmakers recommending that the chief actuaries for Social Security and Medicare be Academy members

5/05 discussion paper on disclosure under the code

Events

11/04 Life and Health Qualifications Seminar

4/05 Professional Standards Seminar

For more information, visit www.actuary.org/proffessi.asp.

Underlined documents are on the Academy website.

Geoffrey Sandler and Lauren Bloom speak on professionalism issues at the Academy's annual meeting.

From the outset of Morris' inquiry into the U.K. actuarial profession, the Academy served as an important resource.

ABCD

The ABCD serves the five U.S. actuarial organizations by considering complaints concerning possible violations of the Code of Professional Conduct and responding to inquiries from actuaries about their professional conduct.

As of Sept. 30, 2005, the ABCD had 16 inquiries in process, compared with 18 at the same time in 2004. Of those 16 cases, one is scheduled for a hearing; nine are awaiting investigation; two are suspended; and four are awaiting more information from the complainant, the subject actuary, or others.

Of the 14 cases resolved through September 2005 by the ABCD, three were dismissed with guidance; four resulted in counseling following an investigation and hearing; one resulted in a recommendation that the subject actuary be publicly reprimanded; and one resulted in a recommendation for expulsion.

Through September, the ABCD received 26 voluntary requests for guidance.

William Falk, chairperson of the ABCD

ASB

The Actuarial Standards Board serves the actuarial community and the public by codifying generally accepted actuarial practice through the issuance of actuarial standards of practice (ASOPs).

Since October 2004, the ASB has exposed a number of proposed and revised ASOPs and adopted several revised ASOPs. The ASB also approved a new introduction to the standards that explains the purpose, nature, and format of ASOPs (as well as some of the commonly used terms and concepts) and released an updated library of standards on CD-ROM.

Michael LaMonica, chairperson of the ASB

ASB Publications

11/04 updated CD-ROM library of ASOPs

12/04 final revision of ASOP No. 23, Data Quality

12/04 final version, Introduction to the Actuarial Standards of Practice

3/05 second exposure draft of proposed revision of ASOP No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions

3/05 exposure draft of proposed revision of ASOP No.15, Dividends for Individual Participating Life Insurance, Annuities, Disability Insurance, and Long-Term Care Insurance

3/05 exposure draft of proposed revision of ASOP No.27, Selection of Economic Assumptions for Measuring Pension Obligations

3/05 exposure draft of proposed revision of ASOP No. 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations

6/05 final revision of ASOP No. 11, Financial Statement Treatment of Reinsurance Transactions Involving Life or Health Insurance

6/05 final revision of ASOP No.19, Appraisals of Casualty, Health, and Life Insurance Businesses

9/05 third exposure draft, Selection and Use of Asset Valuation Methods for Pension Valuations

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