

Academy Hill Visits: Valuable Exercise

FAST-MOVING LEGISLATION dominated the discussion for both pension and health actuaries making their annual Academy Capitol Hill visits this year.

For the 21 pension actuaries who descended on Washington on Feb. 27 for meetings at the White House, various congressional offices, the Treasury and Labor departments, and the Internal Revenue Service, Government Accountability Office, Congressional Research Service, Pension Benefit Guaranty Corp., and National Academy of Social Insurance, it was all about

pension reform legislation currently being sorted out in a House-Senate conference committee.

For the 16 health actuaries who met with the White House, various congressional offices, the Treasury and Labor departments, and the Congressional Research Service and Congressional Budget Office on March 9 and 10, the main topic of conversation was the Health Insurance Marketplace Modernization and Affordability Act of 2006, sponsored by Sen. Michael Enzi (R-Wyo.).

No surprise, really. But what might have come as a bit of a surprise, particularly for those Academy members making Hill visits for the first time, was the value of the effort—for both the policy-makers they visit and for themselves.

“I came away with the feeling that, yes, this is an important mission for the Academy, and it is something the Academy should be devoting time and resources to,” said first-time Hill visitor Ken Buffin, the incoming chairperson of the Academy’s Social Insurance Committee. Because the staffers that he talked to tended to limit their focus on a given issue to legislation that was already in the pipeline, Buffin said, he thought the Academy played a valuable role by widening their perspective.

See **ACADEMY HILL VISITS**, Page 12



From left, Academy staffer Andrew Simonelli confers with Brian O’Konski, Lisa Larsen, and Ed Burrows prior to a meeting with the policy director for House Majority Whip Roy Blunt (R-Mo.).

Actuarial UPDATE

Inside

NAIC News

Academy projects take center stage at the NAIC’s spring meeting **PAGE 2**

Work Long and Prosper

A new issue brief examines longevity and retirement policy **PAGE 4**

Academy Spotlight

What’s happening in the Council on Professionalism **PAGE 7**

Spring Meeting 2006

Information on sessions, speakers, CE credit, and more **PAGES 10-12**

Timely Analysis on Pension Reform

DURING THE Pension Committee’s Feb. 27 Capitol Hill visits (see above story), several congressional staffers requested that the committee update its November 2005 analysis of funding reform proposals to reflect the passage of the House pension reform bill in December. Less than a month later (and shortly after the formation of a conference committee to resolve differences between the House and Senate bills), the committee complied.

In the updated **analysis**, which contains a number of new items and technical corrections, the Academy specifically commends the Senate for including a provision in its bill to give the Treasury Department

and the Pension Benefit Guaranty Corp. (PBGC) additional tools for freezing plans and getting sponsors to fund their plans in order to avoid involuntary or distress termination. “Providing the PBGC with the necessary tools is crucial for keeping employers responsible for their promises,” said Ron Gebhardtshauer, the Academy’s senior pension fellow.

The updated analysis also addresses the following issues:

■ **Side fund**—A new concept that is discussed in the revision is the side fund, which could provide an incentive for plans to contribute more than the minimum. The side fund would allow surpluses above a

See **PENSION REFORM**, Page 5

APRIL

- 3 Academy Capitol Hill briefing on Social Security, Washington
- 5-6 SOA predictive modeling applications seminar, Chicago
- 6 Academy Executive Committee meeting, Washington
- 6 ASB meeting, Chicago
- 7 Academy Life Reserve Work Group meeting, Chicago
- 17 ASB Pension Committee meeting, Washington
- 20-21 CRUSAP task force meeting, Washington
- 23 Academy/SOA seminar on C-3 Phase II, Chicago
- 23-26 ERM symposium (CAS, SOA), Chicago
- 25 CIA pension seminar, Montreal

MAY

- 2 Academy Council on Professionalism meeting, Washington
- 7-9 ASPPA Mid-Atlantic benefits conference, Philadelphia
- 7-10 CAS spring meeting, Fajardo, Puerto Rico
- 15-16 ASPPA Great Lakes benefits conference, Chicago
- 15-16 Academy spring meeting, Washington
- 17 Academy Board of Directors meeting, Washington
- 17-19 Employee benefit spring meeting (CCA, SOA), Dallas
- 21 Academy Pension Practice Council meeting, Charleston, S.C.
- 22 Academy Pension Committee meeting, Charleston, S.C.
- 24-25 SOA spring meeting (financial reporting, product development), Hollywood, Fla.
- 25 North American Actuarial Council meeting, Paris
- 28-June 2 International Congress of Actuaries meeting, Paris

JUNE

- 1-2 CAS seminar on reinsurance, New York
- 5-6 ASB meeting, Washington
- 7-8 ASPPA Northeast Area benefits conference, Tarrytown, N.Y.
- 8-9 NAIC Life and Health Actuarial Task Force meeting, Washington
- 10-13 NAIC summer meeting, Washington
- 20-22 SOA spring meeting (health), Hollywood, Fla.
- 26-27 ASB meeting, Washington
- 29-30 CIA annual meeting, Ottawa

JULY

- 10-14 SAV course on quantitative risk management, Lausanne, Switzerland

WEB INTERFACE

Links to documents underlined in blue are included in the online version of this issue at www.actuary.org/update/index.asp

Academy NEWS Briefs

NAIC News

A T THE MARCH 4-7 spring meeting of the National Association of Insurance Commissioners (NAIC), the Academy again sponsored breakout sessions for regulators interested in learning more about the Academy's principles-based initiative to develop both reserve and risk-based capital requirements for a broad spectrum of products. The two sessions, led by Donna Claire, Tom Kalmbach, David Neve, and Shirley Shao, attracted more than a dozen regulators seeking answers to questions in an informal one-on-one setting.

At the meeting of the NAIC's Life and Health Actuarial Task Force just before the NAIC meeting, Academy volunteers presented more than a dozen reports on principles-based issues, including [definitions](#) of the main principles, an [update](#) from the Life Financial Soundness/Risk Management Committee (formerly referred to as the SVL2 Work Group), a report on [reserve modeling](#), a [C-3 Phase II survey](#), and [comments](#) on changes in the proposed actuarial guideline for variable annuities, AG VACARVM.

In other NAIC meeting action, the Academy's Life Capital Adequacy Subcommittee gave a report on [modified coinsurance](#) to the NAIC's Life RBC Work Group. It is expected that the information will be drafted into instructions that will be voted on at the NAIC's summer meeting in Washington.

On the casualty side, the P/C Risk-Based Capital Committee accepted a charge from the NAIC's Capital Adequacy Task Force to improve the risk-based capital (RBC) calculation by modeling catastrophes. Working toward an August deadline, the Academy committee will prepare a report for the task force on the catastrophe risk charge included in capital requirements in other countries, as well as those calculated by rating agencies. The committee has also been asked to recommend a procedure for extracting the catastrophe loss and premium out of the RBC calculation so as to eliminate double counting of catastrophe exposure.

IN THE NEWS

A March 17 *USA Today* article on the biggest mistakes people make when entering retirement quoted Academy Senior Pension Fellow **Ron Gebhardt**, who discussed Academy statistics on increased longevity in retirement. Gebhardt was also quoted in an article on Northwest Airlines' pension shortfall that ran in the March 16 *Minneapolis-St. Paul Star Tribune*. A decline in estimated future interest rates of only three-quarters of a percentage point can force a company to kick in an extra \$500 million to \$1 billion in pension

plans the size of Northwest's, Gebhardt said.

An article that ran March 1 on Benefitnews.com on IRS fee increases for determination and opinion letters quoted **James Turpin**, former Academy vice president for pension issues and president of the Turpin Consulting Group Inc. in Albuquerque, N.M. The costs of higher fees will be absorbed first by document preparers, Turpin said, but will eventually be passed along to pension plan sponsors.

Articles on the Academy's principles-based reserving project ran in the online ver-

sion of *National Underwriter* on March 3 and March 8. Both articles, filed from the spring meeting of the National Association of Insurance Commissioners, discussed regulators' concerns about the use of lapse rates in the reserving formula.

ON THE MOVE

Rade Musulin, vice chairperson of the Casualty Practice Council, chairperson of the Academy's Communications Review Committee, and a member of the *Update's* editorial board, will leave his position as vice president-operations, public affairs, and reinsurance for the Florida Farm Bureau Insurance Cos.

File	Date	Title/Description	Location	Required Hours
2006-1-13-2006	2006-1-13-2006	Academy Spring Meeting	Washington, DC	Continuing Education, 16 hours
2006-1-13-2006	2006-1-13-2006	California Actuarial Society	Alhambra, CA	Continuing Education, 16 hours
2006-1-13-2006	2006-1-13-2006	Academy Annual Meeting	San Francisco, CA	Continuing Education, 16 hours
2006-1-13-2006	2006-1-13-2006	2006 Canadian Actuarial Society	Montreal, QC	Continuing Education, 16 hours
2006-1-13-2006	2006-1-13-2006	2006 Canadian Actuarial Society	Montreal, QC	Continuing Education, 16 hours

ONLINE CE CALENDAR

The Quickest Way to Keep Current

Use the Academy's profession-wide CE [calendar](#) to check out upcoming continuing education opportunities. The calendar, maintained on the Academy website, features programs offered by all six North American actuarial organizations.

It's a snap to use, as more and more actuaries are discovering—since the calendar debuted on the Academy website in January, it has received more than 1,200 hits.

Questions?

Contact Academy Public Affairs Manager Leslie Wade (wade@actuary.org; 202-223-8196).



It is perfectly OK to clean out your files periodically. It's even OK to get rid of that ridiculous tie that your mother-in-law gave you for your birthday last year. But you should be careful of existing document retention requirements that govern your daily practice, so that you are able to fully comply with Precept 14.

JOE SUTLIFF

in Gainesville, Fla., in May and move to Australia to be senior actuary with Aon Reinsurance Australia in Sydney.

- **Edward Cymerys** has been named senior vice president and chief actuary for Blue Shield of California in San Francisco. He was formerly senior vice president of pricing and underwriting for PacifiCare Health Systems.
- **Robert Wolf** has been named director at Navigant Consulting Inc. in Chicago. He was formerly a principal at Mercer Oliver Wyman.
- **Ken Levine** has been named vice president of actuarial and chief actuary for Scottsdale Insurance Co. in Scottsdale, Ariz. He was formerly associate vice

president and actuary.

- **Lian Lu Ng**, chief executive officer for AmAssurance Berhd in Kuala Lumpur, Malaysia, is the new president of the Life Insurance Association of Malaysia.
- **James Wiseman** has been named vice president and chief actuary for Fort Dearborn Life Insurance Co. in Chicago. He was formerly principal for Enhanced Asset Resources.
- **Albert Beer**, president of strategic business for American Re-Insurance Corp. in Princeton, N.J., has been elected to the Board of Overseers of St. John's University School of Risk Management in New York. ▲

Retirement Planning Tips

IN CONJUNCTION WITH THE 2006 National Summit on Retirement Savings, the American Society of Pension Professionals and Actuaries (ASPPA) and several insurance industry groups have created a new brochure that describes the wide array of retirement security products that are available.

Designed to educate consumers about the importance of personal financial protection in retirement, the brochure features sections devoted to pensions, 401(k) plans, and IRAs; annuities; life insurance; long-term care insurance; and disability income insurance. In addition to descriptions of the various options available, the brochure discusses current tax treatment and issues and trends for each retirement savings product.

The American Council of Life Insurers, the Association for Advanced Life Underwriting, and the National Association of Insurance and Financial Advisors worked with ASPPA in developing the brochure. Copies are available online at www.asppa.org/pdf_files/Personal%20Financial%20Protection.pdf.



Fitting Work Into Longer Life Spans

AMERICANS CONTINUE TO LIVE LONGER. That's the good news. But are America's retirement programs, including the voluntary defined benefit (DB) system, Social Security, and Medicare, keeping pace with increases in longevity? Not necessarily, according to a new Academy issue brief, *Longevity and Retirement Policy*.

Authored by the Retirement Security Principles Task Force, the [issue brief](#) examines the effect that increased longevity could have on an individual's ability to obtain adequate benefits in retirement. The demographics are clear: In 1940, when Social Security first paid monthly retirement benefits, individuals reaching

must anticipate 40 years of contributions to finance 20 years in retirement. The higher cost associated with the increase in longevity is probably at least one factor in the decline of DB plans.

Despite these demographic realities, private-sector pension plans and Social Security continue to offer a number of incentives for employees to retire early, including early retirement features such as windows and payment of unreduced benefits at an early age; retiree medical coverage at younger ages, before Medicare eligibility; and eligibility for early retirement benefits from Social Security beginning at age 62.

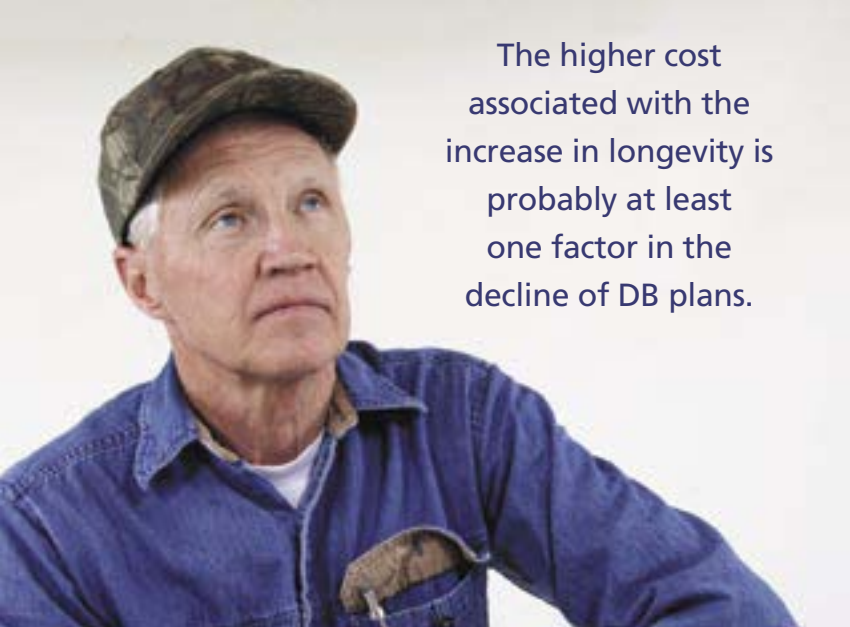
According to the issue brief, a number of policy options would provide more incentives and fewer disincentives to delay retirement and continue to accumulate retirement savings. For example, the government could encourage employers to retain older workers by changing pension law and raising the normal retirement age of 65 through ad hoc changes or indexation of the age to reflect past experience in longevity. The government could also alter Social Security so that the normal retirement age gradually increases beyond 67, or the early retirement age of 62 is raised to keep pace with the increase in normal retirement age.

The issue brief also touches on the concept of phased retirement. What is needed to encourage employees interested in only gradually cutting back on work are favorable Internal Revenue Service regulations that would allow them to continue to accrue benefits while working a reduced schedule.

In addition to policy options, the issue brief outlines the various retirement ages currently in pension law as well as government rules affecting retirement plan design.

Bruce Schobel chairs the task force that wrote the brief. Other task force members are Ed Burrows, John Parks, Anna Rappaport, Dick Schreitmueller, John Turner, Tom Wildsmith, John Wilkin, and Manha Yau.

—HEATHER JERBI



The higher cost associated with the increase in longevity is probably at least one factor in the decline of DB plans.

age 65 could expect to live on average for another 13 years. They would have spent 47 years at work before reaching normal retirement age, meaning the number of years in retirement for full-career workers was approximately 28 percent of the time that they that they spent in the labor force.

In 2006, most individuals claim Social Security retirement benefits at age 62 rather than 65, and they enter the labor force at a later age, often at age 21 or even older, rather than age 18. This leaves about 40 years of work before an expected retirement at age 62, at which point remaining life expectancy is approximately 20 years. When planning pension contributions, employers used to be able to anticipate 47 years of contributions to finance 13 years in retirement. Now, employers

PENSION BRIEFS

► **JOHN PARKS**, the Academy's secretary-treasurer and a consulting actuary with the Principal Financial Group in Pittsburgh, has joined the Retirement Security Principles Task Force.

► **ARTHUR TEPFER**, president of Tepfer Consulting Group in Northbrook, Ill., has joined the Pension Accounting Committee.

Moody's Methodology Rated

IN A MARCH 1 [letter](#), the Academy's Multi-employer Plans Task Force commented on a rating methodology proposed by Moody's Investors Service for companies participating in multiemployer defined benefit (DB) pension plans.

In its letter, the task force flagged several areas of concern in the proposed rating methodology, including:

- The timeliness of plan information used to estimate funding status
- The estimation of "average liability" and the applicability of an "underfunding multiple" for multiemployer plans
- The use of different dates for values of plan liabilities and plan assets
- The arbitrary assumption of the 75 percent/25

percent allocation of underfunding

- The potentially significant effect of pending pension reform legislation on the determination of future liabilities of underfunded multi-employer pension plans.

Members of the task force recommended that in rating companies, Moody's should use the most current information possible, be consistent in its measurement of assets and liabilities, and reflect current law. At the same time, the task force wrote, Moody's needs to take care that any rating measure not provide misleading information about the exposure of employers to underfunding risk. Finally, the task force suggested that Moody's extend its research to fully understand the nature of a sponsoring employer's commitment to a multiemployer plan. ▲

In rating companies, Moody's should use the most current information possible, be consistent in its measurement of assets and liabilities, and reflect current law.

Pension Reform, *Continued from Page 1*

certain threshold to be accessed for other purposes. The side fund could also be used for at-risk contributions. Surplus contributions could be accessed by the company if it became healthy again and the surplus wasn't needed.

■ **Smoothing**—The Academy analysis discusses concerns about contribution volatility and ways to manage it—including gradual amortization, a technique that could be used if policy-makers wanted to drop smoothing of assets and liabilities. The updated analysis also provides a technical correction to Sec. 303 in both the House and Senate bills. To achieve one-year smoothing under the Senate bill, the use of asset values on the last day of the plan year two years before should be allowed. Currently, the bill doesn't allow asset information from the prior valuation date. To provide parallel treatment of assets and liabilities in the House bill, the Academy suggests that the asset statement for the current valuation date, plus the asset statements for the three prior valuations, needs to be referenced.

■ **Yield curve and phase-ins**—The Academy's analysis suggests that sponsors be allowed to calculate liabilities using the full yield curve, at market interest rates at or near the valuation date, without smoothing, segmentation, and/or phase-in. This is another area in which the committee offered a technical correction. Language in both the House and Senate bills on the construction of the segments is not actuarially sound. Determining the second segment from bonds with maturities from six to 20 years inappropriately includes market rates during the first five years. The committee feels that a present-value-based approach that is being discussed is more appropriate.

■ **Mortality**—Plan-specific experience should be allowed, and the Academy suggests specific language that would mandate projection to the valuation date as well as requiring further projection where appropriate under actuarial standards.

■ **At-risk liability**—Both the House and Senate bills assume that participants

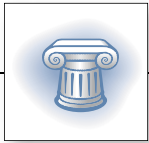
in at-risk plans will retire at their earliest retirement date or on the most subsidized date. The Academy argues that the worst-case result for a liquidating company with early retirement subsidies in its pension plan is to assume that everyone who is eligible will retire immediately. Furthermore, the Academy suggests that the at-risk liability be phased in.

■ **Credit balances**—The Academy continues to suggest that in order for the credit balance mechanism to work properly, the balances should be subtracted from plan assets for funding purposes, even when assets (including the credit balance) exceed liabilities.

■ **Government contractors**—Cost accounting standards that government agencies use when contracting services from the private sector should be adjusted to reflect changes in minimum contribution rules.

■ **Lump sum calculations**—The Academy suggests that the use of a single rate to calculate lump sums under Sec. 415 would be much simpler.

—HEATHER JERBI



Spring Meeting ASB Info Session

THE ACTUARIAL Standards Board (ASB) will be hosting a two-hour information-gathering session at the Academy's May 16 spring meeting (see full meeting schedule, Pages 10 to 12) to elicit feedback on the ASB's general procedures and on the actuarial standards of practice (ASOPs).

The ASB is seeking comments on a number of questions, including:

➤ Do ASOPs actually reflect generally accepted practice? With limited exceptions, ASOPs are written to codify generally accepted actuarial practices because, among other reasons, the ASB

the ASB [website](#) and publicized and distributed in mailings to Academy members. Is this enough?

➤ How can the ASB ensure that comments reflect consensus in the profession? Exposure drafts often receive relatively few comments (10 to 50 letters), and those comments tend to reflect opposition to certain wording in the exposure draft. How can the ASB encourage more people to comment, and how can the ASB ensure that those comments are representative? Do you believe the ASB and its drafting committees respond to comments appropriately?

ASOPs address concepts in, for instance, accounting or financial economics, particularly when generally accepted practice has not yet evolved? Are there ASOPs that don't accommodate those concepts, and should they be changed?

➤ Is the ASB independent enough? Currently, a committee consisting of the presidents and presidents-elect of the five U.S. actuarial organizations appoints actuaries to be ASB members. The ASB itself appoints members of its drafting committees. Are these procedures responsive to the general public that actuaries serve? Is the ASB independent from centers of influence both within and outside the actuarial profession?

➤ Are ASB procedures generally appropriate? If not, how should they be changed?

➤ How do ASOPs affect litigation risk? The ASB wants ASOPs to describe generally accepted practice without incorporating language that might subject you to unfair liability. On the other hand, are ASOPs beneficial to you in a litigious environment, especially when compared with a scenario where there are no ASOPs?

If you are interested in speaking at the session, please notify the ASB (asb@actuary.org; 202-223-8196) by May 9. For more information, go to www.actuarialstandardsboard.org.

—CAREN CLARK

If you are interested in speaking at the ASB information-gathering session at the Academy's May 16 spring meeting, please notify the ASB by May 9.

operates within the bounds of legal and practical constraints. Some believe that ASOPs should require the actuary to work at a level of "best practice"; others that ASOPs should describe "best practice" but not be mandatory; still others that ASOPs are not needed at all. Do ASOPs provide an appropriate level of guidance? If not, what is the appropriate level?

➤ Are ASOPs too prescriptive? Or not prescriptive enough? As currently written, ASOPs do not direct you to perform actions in absolute terms. ASOPs also leave room for you to exercise professional judgment when performing certain professional services. Is this approach appropriate?

➤ Are ASOPs clear and unambiguous? If not, how could the ASB improve their overall clarity?

➤ Is there enough opportunity to comment on exposure drafts? The ASB provides, at a minimum, 30 days to comment on exposure drafts and often up to 90 days. Exposure drafts are available on

➤ Are ASOPs clear on reliance? ASOPs sometimes refer to reliance on other actuaries, reliance on experts, reliance on data, or reliance on information supplied by others. In general, do ASOPs provide an appropriate level of guidance with respect to reliance? If not, how should the ASOPs be changed?

➤ How extensive should the "deviation clause" be? ASOPs require that you be prepared to justify the use of any procedures that depart materially from those set forth in the ASOP. How detailed should your disclosure be?

➤ How much disclosure is appropriate when discussing prescribed assumptions or methods? Some ASOPs require you to disclose the source of assumptions or methods prescribed by applicable law. Should ASOPs require you to opine when a prescribed assumption or method is not reasonable in your professional judgment?

➤ Should ASOPs address concepts of other disciplines? To what extent should

PROFESSIONALISM BRIEFS

➤ **ALAN FORD**, a consulting actuary in Hampton, N.J., has joined the Actuarial Standards Board (ASB), replacing **WILLIAM WELLER**, who resigned his position. Ford formerly served as chairperson of the ASB's Health Committee. Succeeding him in that position is **PAUL FLEISCHACKER**, a consulting actuary in West Palm Beach, Fla.

ACADEMY SPOTLIGHT

Council on Professionalism

Professionalism Analyst: Anji Tripathy (tripathy@actuary.org; 202-785-7877)

Vice President: Geoffrey Sandler

THE Academy's Council on Professionalism continues to pursue projects aimed at reaching out to members and encouraging them to incorporate a high level of professionalism into their daily practice.

WHAT'S BEEN DONE

Revised Qualification Standards

The Committee on Qualifications recently released a second exposure [draft](#) of proposed changes to the Qualification Standards for Prescribed Statements of Actuarial Opinion, which apply to multiple practice areas. The draft was developed in response to comments received on the first exposure draft and takes a very different approach to continuing education. Instead of calling for actuaries to take 24 hours of continuing education over a rolling two-year period (while requiring at least half to qualify as "organized activity"), the exposure draft requires actuaries to obtain a significantly greater number of hours but offers far more flexibility in determining what activities qualify as continuing education. The scope of the proposed revised standards is expanded over that of the existing standards, applying to all actuaries who issue "statements of actuarial opinion" and not only to those whose statements of actuarial opinion are prescribed by law or regulation, an actuarial standard of practice, or an accounting requirement. Comments on the exposure draft are due July 1.

Life and Health Qualification Seminar

The sixth annual Life and Health Qualification Seminar, held Nov. 8 to 11, attracted a record 78 attendees. Jointly sponsored by the council and the Society of Actuaries, the 3 1/2 -day seminar is designed to help actuaries meet the eligibility requirements for issuing annual statement reserve opinions for life and health insurers. Seminar attendees participated in case studies, which were designed to illustrate and reinforce concepts conveyed over the course of 13 diverse instructional periods. Of those



attending the seminar, 85 percent took the concluding half-day exam. For more experienced actuaries, the seminar served as a basic education refresher or source of continuing education.

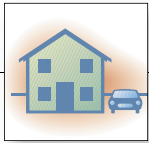
Communications Webcast

Almost 300 actuaries tuned in Nov. 29 to take part in the council's free webcast on effective actuarial communications. The session, which provided listeners with continuing education (CE) credit for log-

ging on, listening, and participating, focused on effective communication with clients, employers, regulators, and others (as well as the implications of not communicating effectively.) Speaking on the webcast were Donna Claire, former Academy vice president for life issues and a member of the Council on Professionalism; Ken Kent, former Academy vice president for pension issues and vice chairperson of the Council on Professionalism; and Lauren Bloom, the Academy's former general counsel and director of professionalism.

WHAT'S PLANNED

- The Academy's May 16 Spring Meeting will feature an information-gathering session hosted by the Actuarial Standards Board (ASB) (see story, opposite).
- The 2006 Robert J. Myers Public Service Award will be presented at the annual Academy luncheon during the 2006 Spring Meeting. The Committee on Actuarial Public Service solicited award nominations from the Academy's membership earlier this year.
- The Committee on Professional Responsibility will offer a CE-eligible July 11 webcast on peer review. Speakers will present the committee's newly updated discussion paper on peer review, and will discuss peer review in the context of large and small company practice. The council will also present sessions on peer review at the SOA spring meetings.
- The council will again offer its Life and Health Qualification Seminar in November.



[CASUALTY NEWS]

P/C Reinsurance: A Technical Review

THE NATIONAL ASSOCIATION of Insurance Commissioners (NAIC) has asked the Academy's Committee on Property and Liability Financial Reporting to evaluate a number of technical issues related to P/C reinsurance with an eye toward presenting its findings at the fall NAIC meeting in St. Louis.

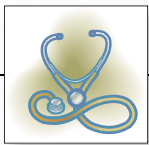
In addition to a discussion of the definition of a safe harbor within the concept of P/C reinsurance, the committee's Risk Transfer Work Group will be considering a number of technical questions related to risk transfer testing, including:

- How to determine the appropriate interest rate to be used for discounting.
- How to treat a guaranteed interest rate on funds held or experience account.
- What to do if the interest rate on funds held or experience account is very different from the interest rate used for discounting.
- Whether "cash flow" means cash that has changed

hands or whether it also includes implied cash flows.

- How to consider brokerage fees, commutation clauses, sunset clauses or special termination provisions, ceding commissions paid in the future or at contract expiration, maintenance fees, special cancellation rights, and multiyear contracts.
- What the components of the numerator and the denominator are in a test for significance of loss to the reinsurer
- Whether, in a probabilistic analysis, the numerator for each scenario should be compared with the corresponding denominator value for that scenario, or with the weighted average of the denominator values for all scenarios.

The work group will also be looking at issues regarding data, methods, and interpreting results in risk transfer testing and will be monitoring (and commenting on if appropriate) the bifurcation project of the Financial Accounting Standards Board. ▲



[HEALTH NEWS]

Comments Sought on Group Disability Revision

The work group is seeking comments on the appropriateness of the practice note, the desirability of annual updates, and any substantive disagreements with its findings.

AWORK GROUP OF THE Health Practice Financial Reporting Committee is seeking your comments on an updated [practice note](#) designed to help health actuaries determine actuarial reserves and liabilities for group long-term disability income business.

The practice note defines basic terms, such as Sec. 7 and Sec. 8 opinions, and reviews the fundamentals of reserving for disability insurance, including discussions of which laws and regulations and which actuarial standards of practice apply. The practice note also includes sections on which reserve methods are appropriate for calculating disabled life reserves on known, open claims, and methodologies

for establishing a liability for incurred but not yet reported claims, as well as other considerations in reserving for group long-term disability.

The work group is seeking comments on the appropriateness of the practice note, the desirability of annual updates, and any substantive disagreements with its findings. Comments should be sent by April 28 to GERALYN TRUJILLO, the Academy's health policy analyst (Trujillo@actuary.org; 202-223-8196). Jinn-Feng Lin chairs the work group that prepared the practice note. Other members of the work group are Barry Allen, Arthur Baldwin III, Tim Gustafson, Scott Haglund, Foon Lew, Jerome Lynch, Ray Siwek, and Jack Sulger. ▲

COPLFR Considers Workers' Comp

THE COMMITTEE ON PROPERTY and Liability Financial Reporting (COPLFR) will be helping a subgroup of the National Association of Insurance Commissioners' (NAIC) Casualty Actuarial Task Force respond to recommendations in the NAIC's October 2005 draft study on large-deductible workers' compensation schemes.

The NAIC subgroup is seeking particular assistance from COPLFR in reviewing a study recommendation that annual statement reporting should be amended to show

workers' compensation losses under the deductible threshold on a state-by-state basis and another recommendation that further study is necessary on apparent disconnects in accounting requirements for loss recoveries under large-deductible programs.

The National Council on Compensation Insurance Inc., which manages the nation's largest database of workers' compensation insurance information, has also been asked to comment on the study recommendations. ▲

CASUALTY BRIEFS

► Joining the P/C Extreme Events Committee are **DANIEL SPAFFORD**, vice president and actuary for Allmerica Financial Corp. in Worcester, Mass.; and **JACK SWISHER**, an actuary with the Florida Department of Financial Services in Tallahassee, Fla.

LIFE BRIEFS

► The Academy's Life Financial Reporting Committee is preparing a practice note on the American Institute of Certified Public Accountants' standard of practice 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Cost in Connection with Modification or Exchanges of Insurance Contracts*. The committee is looking for specific questions or issues that you feel should be addressed in the practice note. Please send your suggestions to John Morris (john.w.morris@us.pwc.com).

► Joining the Annuity Reserves Work Group are **MICHAEL BOERNER**, managing actuary with the Texas Department of Insurance in Austin, and **IVAN GRABOWSKI**, an annuity valuation actuary with AmerUS Group in Des Moines, Iowa.

Updated Practice Notes Available

THE ACADEMY has published updated practice notes on statutory reserves for individual disability income insurance and on Medicare supplement business.

Updating an original written in 1995, the statutory reserves [practice note](#) defines important terms, delineates which regulations and actuarial standards of practice apply to disability reserves, and discusses reserve adequacy analysis and asset adequacy testing.

Robert Beal chairs the work group that updated the statutory reserves practice note. Other members of the work group are Richard Ferree, Douglas Taylor, and Paul Ziobrowski.

The Medicare supplement [practice note](#) uses a question-and-answer format to address a variety of issues related to determining actuarial reserves and liabilities for individual and group Medicare supplement business. These include questions about risks that affect minimum reserve requirements, adequacy of reserves, and adequacy of assets; a description of practices in use to comply with minimum statutory reserve standards; and a discussion of how refund liability is handled in financial statements.

D. Joeff Williams chairs the work group that updated the Medicare supplement practice note. Other members of the

work group are David Bahn, Dawn Helwig, Peter Hendee, Diana Long, Jim O'Connor, and David Shea. ▲

HEALTH BRIEFS

► **MARK WALKER**, managing actuary for Genworth Financial in Richmond, Va., has joined the Long-Term Care Principles-Based Work Group.

► Joining the Health Practice International Task Force are **JEFF BLACKER**, an actuary with Conseco Insurance Cos. in Carmel, Ind.; Zhi Hu, a health care consultant with Gabriel Roeder Smith & Co. in Southfield, Mich.; **THOMAS MESSER**, a consulting actuary in Hamden, Conn.; **MANOLIS PAXIMADAS**, an associate actuary with Blue Cross Blue Shield of Illinois in Chicago; and **HOWARD UNDERWOOD**, M.D., head of medical informatics and quality metrics for Aetna in Blue Bell, Pa.

► **WENDI MCNEILLY**, lead actuarial analyst for Independence Blue Cross in Philadelphia, has joined the Disease Management Work Group.



Make Your Time Count!

Academy Spring Meeting 2006

May 15-16

Grand Hyatt Hotel • Washington, D.C.

Your time counts. For that reason, the Academy's Spring Meeting is now a one-day event.

- ▶ Enjoy sessions with information on the cutting edge of actuarial practice.
- ▶ Listen to keynote speaker David Walker, comptroller general of the United States and head of the Government Accountability Office, as he provides insights into policy-making at the highest levels of government.
- ▶ Earn up to seven hours of continuing education credit in a single day.

To register, go to www.actuary.org/springmeeting/index.asp.

Questions? Contact Denise Winston, the Academy's meeting planner (Winston@actuary.org; 202-223-8196).

MONDAY, MAY 15

Spring Meeting Reception

If you arrive the day before the meeting, you can join your fellow Spring Meeting attendees for an elegant reception and lively conversation at the Grand Hyatt.

TUESDAY, MAY 16

General Sessions

NOON - 1:45 P.M.

Washington Luncheon

Academy CE: 1 hour

The featured speaker will be **David Walker**, comptroller general of the United States and head of the Government Accountability Office. Walker is a well-known expert on the sweeping demographic and economic changes that will result as the baby boom generation becomes a huge population of long-lived seniors. In addition to his duties as the nation's chief accountability officer, Walker chairs the Center for Continuous Auditing and is a principal of the U.S. Joint Financial Management Improvement Program. He is on the board of the

International Organization of Supreme Audit Institutions, a fellow of the National Academy of Public Administration, and a member of the National Academy of Social Insurance. The luncheon will also feature the presentation of the 2006 Robert J. Myers Award for Public Service

4:30 - 6:30 P.M.

Actuarial Standards Board Information Session

The ASB will hold an information-gathering session (see Page 6) to obtain feedback on actuarial standards of practice, the ASB's procedures, and other timely issues, such as how standards can reflect concepts such as financial economics. Anyone wishing to speak at the session should notify the ASB no later than May 9 (asb@actuary.org; 202-223-8196).

Concurrent Sessions

Track C-Property/ Casualty Issues

8:30 - 9:20 A.M.

C1—NAIC P/C Regulator Panel Academy CE: 1 hour

The panel will address revisions to the NAIC Model Audit Rule and results of some of the first Actuarial Opinion Summaries filed in 2006.

MODERATOR: Mary D. Miller, Academy vice president for casualty issues and actuary with

the Ohio Department of Insurance
PANELISTS: Ramona Lee, actuarial administrator for the Iowa Insurance Division; **Rae Taylor**, a member of the Committee on Property and Liability Financial Reporting (COPLFR) and a casualty actuary with the Oregon State Insurance Division (invited)

9:25 - 10:15 A.M.

C2—P/C Finite Reinsurance Update: Where We Are and Where We're Going Academy CE: 1 hour

The NAIC has been moving rapidly to address issues related to disclosure of risk transfer in finite reinsurance transactions. This session will update attendees on recent developments at both the NAIC and FASB, as well as Academy projects in this area.

MODERATOR: Marc Oberholtzer, vice chairperson of COPLFR and a director at PriceWaterhouseCoopers

10:20 A.M. - NOON

C3—Catastrophe Ratemaking, Regulation, and ASOPs: Companions on a Journey or Strange Bedfellows? Academy CE: 2 hours

Recent natural disasters have put a strain on industry capital related to personal lines insurance. Yet, compliance with



David Walker

actuarial standards on ratemaking functions independently of political and market pressures. This session will look at the intersection and possible conflicts between standards and the current marketplace.

PANELISTS: **Kay Cleary**, an actuary with Citizens Property Insurance Corp.; **John Pedrick**, assistant director of the Ohio Department of Insurance

2:00 – 3:00 P.M.

C4—Discussion: New ASOPs on Risk Classification and Unpaid Claim Liabilities

Academy CE: 1 hour

The ASB is continually monitoring current practices and has released two new standards with ratemaking and reserving implications. This session will focus on revisions to ASOP No. 12 and update attendees on progress on the new standard on unpaid claim liabilities. **Panelists:** **Ralph Blanchard**, a member of the ASB's Reserving Subcommittee and second vice president and actuary for St. Paul Travelers Inc. (invited)

3:15 – 4:15 P.M.

C5—Extreme Events Update

Academy CE: 1 hour

This session will focus on policy issues related to extreme events and related actuarial issues, especially the work of the Academy's Terrorism Risk Insurance Subgroup.

PANELISTS: **Mike McCarter**, chairperson of the Terrorism Risk Insurance Subgroup and vice president for industry and regulatory affairs for AIG

Track H—Health Issues

8:30 – 10:15 A.M.

H1—Principles-Based Methodology and Health: LTC and Beyond

Academy CE: 2 hours

This session will focus on recent efforts of the Academy's State Long-Term Care Principles-Based Work Group to incorporate principles-based methodology into long-term care.

The session will also look at other potential opportunities within the health actuary's purview to incorporate the new methodology.

SPEAKER: **Cecil Bykerk**, chairperson of the ASB and president of CDBykerk Consulting

10:30 A.M. – NOON

H2—Consumer-Driven Health Plans: Focus on Health Savings Accounts

Academy CE: 1.5 hours

President Bush has made health savings accounts (HSAs) a centerpiece of his health care package. But can HSAs, or other consumer-driven health plans, lower the rate of growth of costs? Who signs up for these plans, and is there selection involved? How do these types of consumer-driven plans affect the traditional market?

SPEAKERS: **Cori Uccello**, Academy senior health fellow; **Brent Greenwood**, a member of the CDHP Emerging Data Work Group and a principal with Reden & Anders; **Penny Hahn**, a member of the CDHP Emerging Data Work Group and actuarial director for Humana Inc.; **David Tuomala**, chairperson of the CDHP Emerging Data Work Group and actuarial director of consumer product pricing for CIGNA Healthcare

2:00 – 4:15 P.M.

H3—Actuarial Equivalence under the Medicare Prescription Drug Benefit: The First Year

Academy CE: 2.5 hours

This session will provide an overview of two practice notes related to the Medicare prescription drug benefit and a discussion of issues that have emerged from the first round of actuarial equivalence attestations and certifications.

SPEAKERS: **Dale Yamamoto**, chairperson of the Actuarial Equivalence Retiree Work Group and a consultant with Hewitt Associates; **Margaret Wear**, chairperson of the Actuarial Equivalence PDP/MA-PD Work Group and vice president and prescription drug actuary for PacifiCare Health Systems; **Paul Spitalnic**, actuary for the Centers for Medicare and Medicaid Services

Track L—Life Issues

8:30 – 9:45 A.M.

L1—Principles-Based Approaches to Valuation and Early Warning Signals: The Past

Academy CE: 1.5 hours

This session will look back on the Academy's efforts to establish a new framework for determining life insurers' required capital and reserves in the United States. Beginning with an overview of the Academy's various groups

working to incorporate a principles-based methodology, the session will then focus on the work of the Academy's C-3 Work Group and Variable Annuity Reserve Work Group.

SPEAKERS: **Donna Claire**, chairperson of the Life Financial Soundness/Risk Management Committee and president of Claire Thinking Inc.; **Larry Gorski**, vice chairperson of the Life Practice Council and a consulting actuary with Claire Thinking Inc.; **Tom Campbell**, vice chairperson of the Life Practice Council and vice president and corporate actuary for the Hartford Life Insurance Cos.

10:00 A.M. – NOON

L2—Principles-Based Approaches to Valuation and Early Warning Signals: The Present

Academy CE: 2 hours

This session will focus primarily on the Academy's current work to develop a principles-based methodology for all life products. The speakers will then discuss the Academy's work on developing peer review and qualifications requirements.

SPEAKERS: **Dave Neve**, co-chairperson of the Life Reserves Work Group and second vice president and corporate actuary for Principal Financial Group; **Tom Kalmbach**, co-chairperson of the Life Reserves Work Group and assistant vice president of individual life pricing at the Hartford Life Insurance Cos.; **Donna Claire**, chairperson of the Life Financial Soundness/ Risk Management Committee and president of Claire Thinking Inc.

2:00 – 4:15 P.M.

L3—Principles-Based Approaches to Valuation and Early Warning Signals: The Future

Academy CE: 2.5 hours

The speakers at this session will discuss the new work of the Annuity Reserves Work Group to create a reserving framework for all annuity products, joint work by the Academy and LHATF to resolve governance issues as they relate to corporate and regulatory requirements, efforts by the Life Capital Adequacy Subcommittee to create capital requirements for all annuity and life products, and principles-based developments on the international front.

SPEAKERS: **Jim Lamson**, chairperson of the Annuity Reserves Work Group and president of Actuarial Resources Corp.; **Larry Bruning**, chairperson of LHATF's Standard Valuation

See **SPRING MEETING**, Page 12



Actuarial Update

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Academy Hill Visits, *Continued from Page 1*

“If you read between the lines, our analysis can often be seen in policy development,” agreed Darrell Knapp, a member of the Health Practice Council. “The outcome is not always to my personal liking—after all, this is still a political process, and numerous other interests intervene. However, I take a great deal of satisfaction that the decisions are being made with better information.”

At the same time, said Michael Abroe, the Academy’s vice president for health issues, he came away from this year’s Hill visits with new insights into the legislative process. “We are starting to see the personal side of how policy is made,” Abroe said, explaining that many of the meetings with policy-makers featured frank discussions about health policy and the current political climate.

Among other topics covered in the health Hill visits were President Bush’s proposals to expand health savings accounts (and related issues such as price transparency); the emergence of systems to improve health care quality, including pay for performance, health care information technology, and disease management programs; and the Medicare prescription drug program.

On the pension side, the topics ranged from discussions of cash balance plans to the yield curve and surplus transfers. There was little discussion of Social Security issues, and few expected that legis-



From left, Patrick Collins, Darrell Knapp, and David Shea before their meeting at the Treasury Department

lation would move forward in that area this year, said Donald Segal, the Academy’s vice president for pension issues. However, the Academy will be taking the opportunity to make contact with selected policy-makers on Social Security issues following its April 3 Capitol Hill briefing on Social Security basics. (Look for coverage of the briefing in the May issue of the *Update*.)

In addition to Buffin and Segal, other pension actuaries who participated in the visits were Chet Andrzejewski, Donald Barnes, Ed Burrows, Ron Gebhardtshauer, Jeremy Gold, Dennis Graf, Eli Greenblum, Emily Kessler, Ethan Kra, Lisa Larsen, Christine Mahoney, Jerry Mingione, John Moore, Brian O’Konski, John Parks, Michael Peskin, Bruce Schobel, James Verlautz, and Sarah Wright.

Joining Abroe and Knapp on the health Hill visits were David Axene, Karen Bender, Al Bingham, Grady Catterall, Patrick Collins, Beth Lieberman, Karl Madrecki, Jim Murphy, Geoff Sandler, John Schubert, David Shea, Eric Stallard, Jeff Petertil, and Cori Uccello. ▲

Spring Meeting, *Continued from Page 11*

Law II Subgroup and chief actuary for the Kansas Insurance Dept.; **Shirley Shao**, chairperson of the Regulatory Interface, Governance & Peer Review Work Group and vice president and actuary for Prudential Insurance Co.; **Nancy Bennett**, chairperson of the Life Capital Adequacy Subcommittee and vice president, risk management, for Ameriprise Financial Inc; **Dave Sandberg**, Academy vice president for life issues and vice president and corporate actuary for Allianz Life Insurance Co. of North America

Track P—Pension Issues

2:00 – 4:15 P.M.

P1—Exploring a New Professionalism Landscape for Pension Actuaries

EA Core Credit: 2.5 hours

The Committee on Qualifications recently issued a second exposure draft of the Qualification Standards with a comment deadline of July 1. And the ASB has issued a number of pension standards that raise significant professionalism issues for pension actuaries. This session will include a presentation on the new standards and

a discussion of their effect on pension actuaries, especially as they branch out into new areas, such as stock option valuations and enterprise risk management.

SPEAKER: Kathleen Riley, chairperson of the Committee on Qualifications and senior vice president at the Segal Co.

Spring Meeting Continuing Education

The Academy is a provider of continuing education (CE) for actuaries under the Qualification Standards for Prescribed Statements of Actuarial Opinion. For actuaries practicing in the casualty, health, and life areas, up to seven hours of organized CE activity credit may be earned, as indicated next to the session descriptions.

EA CREDIT—Enrolled actuaries may be able to earn up to 2.5 hours of EA core credit by attending session P1. We cannot guarantee credit for enrolled actuaries, either as core or non-core, since the final determination rests with the Joint Board for the Enrollment of Actuaries.

PD CREDIT—The Academy is in the process of determining whether any of the sessions qualify for professional development credit. Go to www.actuary.org for updates on available CE credit.