

Academy Urges Asbestos Action

ASBESTOS IS NOT GOING AWAY—either in the bodies of the millions of Americans who have been exposed to it or in the U.S. legal system where it has created a continuing deluge of personal injury claims.

On April 7, the Academy held a Capitol Hill **briefing** on the status of asbestos litigation in this country. The briefing was designed to send a strong message, following on the heels of a March 24 letter sent to the Senate that recapped key points from a 2001 **monograph**, *Overview of Asbestos Issues and Trends*. “We are here today to say that this is a problem that is deserving of your attention,” Jenni Biggs, chairperson of the Academy’s Mass Torts Subcommittee, told the audience of congressional staff, policy-makers, and reporters.

The statistics are sobering. Approximately 730,000 claims for asbestos exposure were filed by the end of 2002, with estimates of the ultimate number of claimants ranging from 1 million to 3 million. From approximately 300 asbestos defendants in the early 1980s, there are now over 8,400, representing nearly every industry in the nation. As the number of companies with alleged asbestos-related liability has risen, so has the number of asbestos-related



Raji Bhagavatula, left, and Jennifer Biggs speak at the asbestos briefing.

bankruptcies, to more than 70 at last count, almost half in the past two to three years.

“Many companies cite their loss of hope that there will ever be a legislative solution” as their reason for going bankrupt, Raji Bhagavatula, a member of the Mass Torts Subcommittee, told the briefing audience.

In the briefing, Biggs and Bhagavatula reviewed the
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Actuarial UPDATE

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2004 Enrolled Actuaries Meeting

Pensions: The Coming Evolution

OPTING FOR A CAREER AS a pension actuary may sound like a staid choice until you consider the forces buffeting the profession in the 21st century: global aging and a shrinking workforce, pension funding challenges in many traditional sectors of the economy, and the continuing decline of defined benefit (DB) pension plans as a retirement option. Oh yes, and a dramatic increase in malpractice litigation against actuaries and other financial professionals.

These days, it could be argued, practicing as a pension actuary is like taking a walk on the wild side.

At the 29th annual Enrolled Actuaries Meeting, March 22-24, some 1,300 pen-

sion actuaries convened to consider the challenges that are rocking the profession.

“When I started as an attorney, nobody ever thought the participants, the employees, would ever bring lawsuits. The rules were too complicated,” said David Godofsky, speaking at a general session on pension plan litigation. Citing the large amounts of money held in U.S. qualified pension plans, Godofsky added, “It has been profitable for trial lawyers to learn about ERISA. It’s no longer too complicated.”

Statistics tell the tale. Before 1985, the number of ERISA claims filed by employees in federal courts was fewer than 1,000. Currently, there are 12,000 cases filed each

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MAY

- 3 Academy Capitol Hill briefing on Social Security reform, Washington
- 4 Risk Management and Financial Reporting Council meeting with Accounting Oversight Board, Washington
- 5 Illustrations seminar (Academy, SOA), Chicago
- 5 Life Capital Adequacy Subcommittee meeting, Washington
- 5 Academy Board of Directors meeting, Washington
- 6-7 Academy spring meeting, Washington
- 10 Academy Disease Management Work Group, New York
- 14 Academy Capitol Hill briefing on association health plans, Washington
- 16-17 Academy Pension Practice Council meeting, Boston
- 16-19 CAS spring meeting, Colorado Springs, Colo.
- 17 Life Valuation Subcommittee meeting, Chicago
- 18 Academy Casualty Practice Council meeting, Colorado Springs, Colo.
- 19-21 SOA spring meeting (health, pension), Anaheim, Calif.
- 27 Academy Committee on State Health Issues, Chicago

JUNE

- 3-5 IAA council and committee meetings, Stockholm, Sweden
- 6-10 ASTIN 2004, Bergen, Norway
- 7-8 ASB meeting, Washington
- 8 Life Financial Reporting Committee, Chicago
- 12-15 NAIC summer meeting, San Francisco
- 14-15 ASB Pension Committee meeting, Washington
- 14-15 SOA spring meeting (financial reporting, product development), San Antonio
- 16 CIA professionalism workshop, Calgary, Alberta, Canada
- 17-18 CIA annual meeting, Victoria, B.C., Canada
- 28 Academy Council on Professionalism meeting, Washington

JULY

- 8-10 Council of Presidents meeting, Harrison Hot Springs, B.C., Canada
- 18-21 ASPA summer conference, San Francisco

AUGUST

- 2-3 Academy leadership meeting, Washington
- 8-9 Pension Practice Council meeting, Santa Fe

SEPTEMBER

- 11-14 NAIC fall meeting, Anchorage, Alaska
- 13-14 Casualty loss reserve seminar (Academy, CAS, CCA), Las Vegas
- 20-21 CIA appointed actuary seminar, Toronto
- 20-21 ASB meeting, Washington
- 20-21 SOA valuation actuary symposium, Boston
- 21-22 Academy C-3 Phase 2, RBC, and reserves seminar, Boston
- 22 Academy Committee on Professional Responsibility, Washington
- 23 Academy Board of Directors meeting, Washington
- 30-Oct.1 Academy Life Products committee meeting, New Orleans

WEB INTERFACE

Links to documents underlined in blue can be found at www.actuary.org/update/index.htm.

Academy NEWS Briefs

ASB Adopts New and Revised Standards

AT ITS MARCH MEETING, the Actuarial Standards Board adopted two final standards and approved a proposal to revise an existing actuarial standard of practice (ASOP).

The ASB adopted ASOP No. 42, *Determining Health and Disability Liabilities Other Than Liabilities for Incurred Claims*, a new standard that applies to actuaries determining these health benefit plan liabilities. Such liabilities include contract reserves, premium deficiency reserves, provider-related liabilities, claim adjustment expense liabilities, and other liabilities of insurance entities, insured or noninsured risk-assuming entities, managed care entities, health care providers, government-sponsored health benefit plans, or risk contracts.

The ASB also adopted a revision of ASOP No. 1, *Nonguaranteed Charges or Benefits for Life Insurance Policies and Annuity Con-*

tracts, which provides guidance to actuaries performing professional services in connection with the determination and illustration of nonguaranteed charges or benefits for life insurance policies and annuity contracts where nonguaranteed charges or benefits may vary at the discretion of the insurer. Examples of such policies include fixed and variable universal life policies, indeterminate premium policies, deferred annuity contracts, and equity-indexed policies.

Both standards are enclosed with this issue of the *Update*. They become effective on Sept. 30.

At the same meeting, the ASB approved a proposal from its Life Committee to update ASOP No. 15, *Dividend Determination for Participating Individual Life Insurance Policies and Annuity Contracts*. Life Committee member Thomas Phillips will chair the task force that will work on the revision.

Contingencies, Eh? The Academy is reaching out to our Canadian colleagues. Beginning with the May/June 2004 issue, more than 3,000 members of the Canadian Institute of Actuaries (CIA) will be added to the *Contingencies* mailing list. The move was approved recently by

CIA President Mike Lombardi and Academy President Barbara Lautzenheiser.

"We hope that once CIA members see what *Contingencies* has to offer, they'll become regular contributors as well as enthusiastic readers," said *Contingencies* editor Steve Sullivan. "Many actuarial

professionalism and public policy issues are the same on both sides of the border, and *Contingencies* is a natural forum for exploring that intersection."

Scientific Inquiry Are you interested in the newest wrinkle in actuarial science? Consider attending the 39th annual Actuarial Research Conference, Aug. 5-7, at the University of Iowa in Iowa City, to meet and discuss actuarial problems and their solutions. The conference is cosponsored by the SOA and the Academy, and papers from the conference are published electronically in the Actuarial Research Clearing House each year.

Those interested in presenting a paper are invited to send the title and abstract to Elias Shiu at elias-shiu@uiowa.edu by June 1. Those interested in attending can get more information from www.uiowa.edu/~confinst/production/actuarial/

SAVE THE DATE!

October 18-20, 2004

The Academy's 2004 Annual Meeting will be held **October 18-20** at the **Fairmont Orchid on the Kohala Coast, Hawaii**, in conjunction with the CCA Annual Meeting. In addition to the installation of 2005 Academy President Bob Wilcox, the election of new members to the Board of Directors, and the presentation of the 2004 Jarvis Farley Service Award, the meeting will feature a series of sessions on practice-related and professionalism issues.

[index.htm](#) or from Sheree Baker at the SOA (sbaker@soa.org).



EWS

The Academy's Medical Malpractice Subcommittee sent a March 31 [letter](#) to all U.S. senators on access to health care and the availability and pricing of medical malpractice insurance.



WS

The Academy's Uninsured Work Group submitted a [statement](#) for a March 9 House Committee on Ways and Means Health Subcommittee hearing on the uninsured.

► The Academy's Health Savings Account Subgroup commented in a March 30 [letter](#) to the IRS on Notice 2004-2, which provides guidance on health savings accounts.

► Joining the Academy's Disease Management Work Group are **Cathy Murphy-Barron** and **Marcia Sander**, both consulting actuaries with Milliman USA in New York.

► **J. Christopher Hall**, an actuary with Anthem in North Haven, Conn., has joined the Academy's Health Savings Account Subgroup.



More than 200 actuaries participated in an April 16 Academy conference-call presentation on proposed RBC and reserve requirements. The special tele-session, by the Academy's C-3 Phase 2 and Variable Annuity Reserve Work Groups, was designed to help chief

actuaries and others become more knowledgeable about the proposals.

► **Arnold Dicke**, a member of the Academy's Life Products Committee and a principal with Bell & Dicke LLC in Denver, testified March 9 on proposals to require gender-neutral pricing of life insurance and annuities at a hearing of the Joint Committee on Insurance of the Massachusetts legislature.



WS

The Academy's Social Insurance Committee updated an earlier

[issue brief](#), *Social Security Reform: Changes to the Benefit Formula and Taxation of Benefits*.

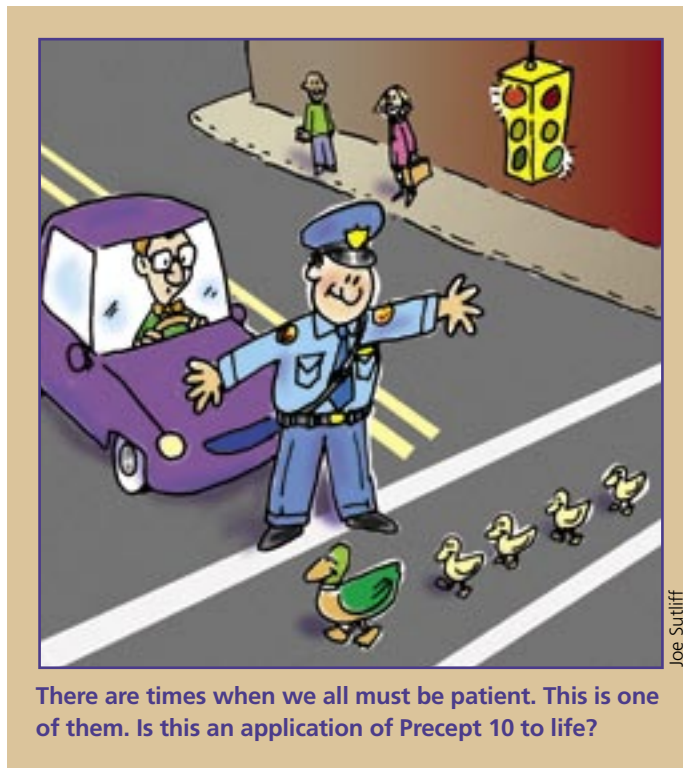
► **Paul Robberson**, director of retirement practice at Watson Wyatt Worldwide in Washington, has joined the Academy's Committee on Social Insurance.

IN THE NEWS

Ron Gebhardt, the Academy's senior pension fellow, was quoted in a special section on retirement in the March 27 issue of the *Economist*, a prominent international news-magazine. He was also quoted in a BenefitNews.com article on improving financial conditions for DB plans.

► **Ron Gebhardt** and **Steve Goss**, a member of the Academy's Committee on Social Insurance and Social Security's chief actuary, were quoted in a Kathy Kristof column about Social Security that ran March 21 in the *Los Angeles Times*, the *Baltimore Sun*, and the Fort Worth *Star-Telegram*.

► A March 24 Associated Press



There are times when we all must be patient. This is one of them. Is this an application of Precept 10 to life?

Joe Sutliff

story about the 2004 Medicare trustees' report cited earlier Academy warnings that projecting deficits through infinity can be misleading.

► A March 23 item in *Insurance Journal* on proposed Colorado legislation to ban credit-based insurance scores referred to a 2002 Academy report to the NAIC on credit scoring.

► In an *Arizona Daily Star* guest editorial on association health plans, John Greene, the former director of the Arizona Department of Insurance, referred to a 2003 Academy letter to Congress that warned of unintended negative consequences of proposed legislation to allow trade, industry, professional, and similar associations to sponsor health plans for their members.

ON THE MOVE

Kristi Matus has been named president and CEO of USAA

Life Insurance Co. in San Antonio, Texas. She was formerly vice president of products and regulatory management.

► **David Lacefield** has been elected senior vice president in charge of standard property-casualty operations for Vesta Insurance Group in Birmingham, Ala. He was formerly president of TexasSelect.

► **Philip Polkinghorn** is the new executive vice president of the life and annuity manufacturing operations of The Phoenix Companies, Inc., in Hartford, Conn. He was formerly vice president of Sun Life Financial Co.

CORRECTION

An item mentioning **Thomas Cawley** in the Academy News Briefs section of the April *Update* misstated his place of employment. He is an assistant actuary for Liberty Mutual in Boston. ▲

Financing Solutions From Inside the Box

WHILE FINANCING PROBLEMS FOR SOCIAL SECURITY are not as immediate as they are for Medicare, the coming retirement of the baby boom generation still threatens to put tremendous strains on the system.

The recently released 2004 Social Security Trustees Report (see story, below) shows that expenses will exceed payroll tax income by 2018 and that Social Security trust funds will run out of money in 2042. Looking ahead 75 years, the trustees project a long-range actuarial deficit of 1.89 percent of taxable payroll.



Robert Randall, left, makes a point as Ron Gebhardt listens.

In an April 16 Capitol Hill briefing, members of the Academy's Committee on Social Insurance discussed possible solutions to the long-range deficit that could be achieved by tweaking the system as it is currently configured.

"Congress traditionally waits as long as possible to solve problems," said Eric Klieber, Social Insurance Committee chairperson. Long-range projections such as those included in the trustees' report give lawmakers advance notice and valuable lead time as they consider how best to fix the system, Klieber told the briefing audience of congressional staffers, policy-makers, and

reporters. Also, he said, the longer that Congress waits to address Social Security's financing problems, the more difficult they will be to resolve.

Among the long-range approaches discussed at the briefing were changing the current benefit formula, changing the taxation of benefits, raising the normal retirement age, and reducing or eliminating benefits for high-income recipients.

The consoling news, said Academy Senior Pension Fellow Ron Gebhardt, is that relatively small changes made now would go a long way toward bringing the system into long-range actuarial balance.

Increasing the Social Security tax rate by 1 percent, for instance (an amount that is less than half of the recent tax cut), would eliminate 51 percent of the projected long-range deficit. Similarly, reducing the cost-of-living adjustment by ½ percent each year would eliminate 41 percent of the long-range deficit.

Continuing the discussion, the Academy held another Hill briefing at the beginning of this month to discuss financing solutions—such as individual accounts—that would require a restructuring of the Social Security system. (Look for coverage of that briefing in the June *Update*.)

Joining Klieber and Gebhardt at the April briefing were Bruce Schobel, chairperson of the Academy's Retirement Age Task Force, and Robert Randall, a member of the Social Insurance Committee. ▲

NEW ACADEMY ISSUE BRIEFS

Action Needed on Medicare Financing

IN ITS NEW **issue brief** ANALYZING THE FINDINGS of the 2004 Medicare Trustees' Report, the Academy concurs with the report's somber analysis: In the absence of timely corrective action, Medicare is moving toward financial free fall.

"The Medicare program continues to face serious financial problems into the future and will create increasing demands on the federal budget and strains on the U.S. economy," said Cori Uccello, the Academy's senior health fellow and one of the authors of the issue brief, *Medicare's Financial Condition: Beyond Actuarial Balance*.

The 2004 report on the federal Hospital Insurance (HI) and federal Supplementary Medical Insurance (SMI) trust funds, released on March 23, states that the HI trust fund will run out of money by 2019, seven years earlier than previously predicted. The sooner than expected depletion of trust fund assets is a result of higher hospital expenditures, lower payroll taxes, and increased payments to rural hospitals and private health plans under the new Medicare law.

Demands on the federal budget will grow as general tax revenues fund an increasing share of Medicare expenditures.

Medicare's demands on the federal budget will grow significantly as general tax revenues fund an increasing share of Medicare expenditures, Uccello said. And it is unclear whether the economy can sustain Medicare spending in the long run.

In 2003, total Medicare spending was 2.6 percent of the gross domestic product (GDP). That likely will increase to 3.4 percent in 2006, largely due to the addition of the new prescription drug benefit. It is expected to rise to 7 percent of GDP by 2030 and to continue climbing after that. Increased spending for Medicare, especially in conjunction with Social Security, will place increasing strains on the U.S. economy and may crowd out funds for other federal programs, the issue brief warns.

In its conclusion, the issue brief urges lawmakers to implement changes to address Medicare's short- and long-term financial problems—the sooner, the better.

The Medicare Trustees Subgroup of the Academy's Medicare Steering Committee, chaired by Tony Hammond, drafted the issue brief. In addition to Uccello, other members of the subgroup are Roland King, Gordon Trapnell, and Lynette Trygstad.

Putting Actuarial Standards into Practice

WHEN DO ACTUARIAL Standards of Practice (ASOPs) apply to individual assignments performed by actuaries? How are standards developed and adopted by the Actuarial Standards Board (ASB)? These questions emerged in a recent California lawsuit about the division of surplus in certain disability policies maintained by Northwestern Mutual Life Insurance Co. While taking no position on the specific facts of the case, *Willens v. Northwestern Mutual Life Insurance Co.*, the Academy recently filed an amicus curiae [brief](#) to address the professionalism questions that the suit raises.

The first question arose out of the decision of Northwestern Mutual's actuaries to look to ASOP No. 15, *Dividend Determination for Participating Individual Life Insurance Policies and Annuity Contracts*, for guidance in allocating divisible surplus among different groups of disability insurance policyholders. In its amicus brief, the Academy explains that while Precept 3 of the Code of Professional Conduct requires actuaries to ensure that work performed by them or under their direction complies with

applicable standards, the precept gives actuaries discretion to exercise professional judgment, taking into account generally accepted practices and principles, when a question arises about the applicability of a standard of practice or when no applicable standard exists. Thus, if the disability policies at issue in the *Willens* case fell within the defined scope of ASOP No. 15, the code requires Northwestern Mutual's actuaries to comply with it. However, in the absence of a standard that deals expressly with the allocation of divisible surplus for disability insurance, the code requires the actuary to exercise professional judgment in dividing the surplus, taking into account the guidance set forth in ASOP No. 15 and acting consistently with generally accepted principles and practices.

The second question refers to the participation of a Northwestern Mutual actuary in the drafting of ASOP No. 15 and whether this unduly influenced the language of the standard as adopted by the ASB. The Academy's brief explains that the ASB uses a separate operating committee to develop each standard and that every standard is carefully reviewed, edited, and approved by the entire ASB. Before adoption, every new

or amended standard is exposed to the actuarial profession and other interested parties through a broad period of notice and comment. All comments that are received are carefully considered and answered in writing by the operating committees under the active oversight of the ASB.

In its amicus brief, the Academy emphasizes that the ASB's processes appropriately maintain the integrity of the standards. It would be inappropriate, if not almost impossible, to prepare standards that contain meaningful actuarial guidance without the participation of actuaries in their development. In the absence of actual proof of wrongdoing, which the Academy has no reason to believe exists in this case, it is irresponsible to suggest that a single individual somehow unduly influenced a drafting process involving the active participation of many competent and honest professionals.

— LAUREN BLOOM

PROFESSIONALISM



ANALYZE FEDERAL PROGRAMS

Social Security Still Posts Actuarial Deficit

THE PROJECTED FINANCIAL CONDITION OF THE Social Security program, at least under the intermediate assumptions of the 2004 trustees' report, hasn't deteriorated over the past year.

That's the good news in the Academy's [analysis](#) of the 2004 Social Security Trustees' Report.

The bad news? The projected date of trust fund exhaustion remains at 2042, a scant 38 years from now.

In its new issue brief, *An Actuarial Perspective on the 2004 Social Security Trustees Report*, the Academy's Social Insurance Committee brings background material and actuarial analysis to bear on the findings of the 2004 trustees report.

Financial projections in the 2004 trustees' report are based on three sets of assumptions, with the intermediate assumptions considered the trustees' best estimate. All the key dates in the 2004 report—2018, when benefits and administrative expenses are first expected to exceed tax income; 2028, when

the amount needed to continue full payment of benefits and administrative expenses is expected to exceed total income, including trust fund assets; and 2042, when trust funds are exhausted—are the same in last year's report.

But while insolvency is not imminent, the trustees' report projects an actuarial deficit of 1.89 percent of taxable payroll for the statutory 75-year long-range projection period of 2004 to 2078. Over that period, expected revenues are sufficient to pay only 87 percent of costs, and in 2042, tax revenues are projected to cover only 73 percent of costs. Long-range actuarial balance could be achieved with an across-the-board benefit cut of about 13 percent for all current and future recipients, or by increasing the combined employee-employer payroll-tax rate by 1.89 percentage points to 14.29 percent.

Eric Klieber is the chairperson of the Social Insurance Committee. Other members who helped in the drafting of the issue brief are Kenneth Buffin, Ed Burrows, Ron Gebhardtshauer, Robert Randall, Richard Rasiej, Richard Schreitmueller, Ken Steiner, P.J. Eric Stallard, Joan Weiss, and James Wiseman. ▲

The projected date of trust fund exhaustion remains at 2042, a scant 38 years from now.

year, Godofsky said. The character of the lawsuits has also changed. "They used to be brought by individual plaintiffs. Now it's class action, looking to collect not thousands of dollars, but millions of dollars," Godofsky said.

Another challenge is the birth dearth, which is already having a profound effect on retirement systems in Western Europe and Japan, and will also complicate pension practice in the United States in coming years. "The issue is not public versus private pensions, or DB versus DC, it's funded versus pay-as-you-go," said Richard Jackson, director of the Global Aging Initiative at the Center for Strategic and International Studies at another session of the EA meeting.

In 2050, Jackson said, the rate of workers to pensioners in most of the developed world will be well under 2:1 (ranging from slightly more than 2:1 in the United States to less than 1:1 in Italy). The problem is global and will require global solutions, he said, although he indicated that a younger population and longer working lives give the United States some advantage (of those 65 and older, currently 18 percent of Americans are still on the job compared to only 2 percent of the French). Along with reforming retirement systems to meet this challenge, Jackson said, new strategies are needed, including modifying immigration rules and outsourcing to match jobs and workers.

Looking at shorter-term goals, speakers at the EA meeting also discussed whether there is still a role for struggling traditional DB plans in this country. "Are DB plans dodo birds or bald eagles? On the brink of extinction or about to be saved by the federal government?" asked Howard Fluhr, president and CEO of The Segal Co., a panelist at the meeting's third general session.

"We believe DB plans provide a strong

Defined Benefit Symposium

After the 2004 Enrolled Actuaries Meeting, more than 90 actuaries gathered with other retirement professionals March 24-25 to brainstorm ways of strengthening national retirement security.

In convening the Defined Benefit Symposium, the organizers had several goals, said Thomas Terry, chairperson of the Academy's Defined Benefit Revitalization Task Force. These were to:

- ▶ Pull together the voices of retirement professionals
- ▶ Identify key principles of national retirement security policy
- ▶ Consider ways to stimulate new initiatives within the profession to address retirement issues.

In addition to an opening session, which coincided with the closing session of the EA meeting, the symposium featured a series of six discussion sessions on retirement security from employer and employee perspectives, the financial aspects of defined benefit plans, and the three pillars of retirement.

At the end of the symposium, participants came away with some initiatives to move the debate along, including improving communication with DB plan participants about the value of DB plans and improving communication with clients about the return on their investment in DB plans, soliciting wide commentary on an upcoming Academy paper on pension funding reform, and creating a principles-based framework for national retirement security policy.

In addition to Terry, other Academy task force members who participated in organizing the symposium were Ken Kent, the Academy's vice president for pension issues and chairperson of the Academy's Pension Practice Council; Don Segal, vice chairperson of the Academy's Pension Practice Council; Ron Gebhardtshauer, the Academy's senior pension fellow; Dick Barney; Kenneth Buffin; Ed Burrows; Lawrence Deutsch; Ethan Kra; John Parks; Gregory Pastino; and Lawrence Sher.

Also speaking at the symposium were representatives of other stakeholder groups, including AARP, the American Benefits Council, ASPA, the Pension Benefit Guaranty Corp., the Pension Rights Center, and the Treasury Department.

source of retirement security in this country. Fundamentally, that is the good that we all work to do," said Ken Kent, the Academy's vice president for pension issues.

The EA meeting is sponsored annually by the Conference of Consulting Actuaries

(CCA) and the Academy.

The meeting's third general session was also the kick-off for the first Defined Benefit Symposium, organized by the Academy's Defined Benefit Revitalization Task Force and the CCA. ▲

Asbestos Action, *continued from Page 1*

concerns of all the stakeholders involved in asbestos personal injury litigation: including seriously injured claimants, claimants with exposure but no current disease, plaintiffs' attorneys, judges, major asbestos defendants, peripheral defendants such as companies that distributed products that contained asbestos, insurers and reinsurers, and workers in firms bankrupted by asbestos-related lawsuits.

Biggs and Bhagavatula also discussed

the effects of continuing asbestos litigation on the general economy. Actuarial estimates of ultimate personal-injury-related costs range from \$200 billion to \$265 billion, Biggs said. Citing a 2003 study by Navigant Consulting Group, Biggs added that failure to resolve the issue could reduce economic growth by \$2.4 billion per year, costing 30,770 jobs annually.

Because the outlook for the passage of any federal legislation this year is cloudy,

Biggs and Bhagavatula discussed various proposals under development by interested parties on both state and federal levels to establish objective medical criteria for asbestos-related impairment, liberalize statutes of limitations, eliminate consolidation of cases, and eliminate forum shopping among states.

The briefing was moderated by Jan Lommele, the Academy's vice president for casualty issues. ▲

AICPA and Academy: Meeting of the Minds

ON A BLUSTERY ST. PATRICK'S DAY, members from every Academy practice council and the Actuarial Standards Board converged on midtown Manhattan. The draw wasn't bagpipes or green beer but the opportunity to participate in the Academy's annual meeting with the American Institute of Certified Public Accountants' Insurance Liaison Task Force. Organized by the Academy's Risk Management and Financial Reporting Council, the four-hour meeting at AICPA's New York office allowed both the task force and Academy representatives to cover an extensive laundry list of issues and projects.

► Several members of the Academy delegation raised concerns about some components of a paper, "Evaluating Risk Transfer in Reinsurance of Short-Duration Contracts," that the AICPA sent to the Financial Accounting Standards Board (FASB) in November. The AICPA asked the Academy's Committee on Property and Liability Financial Reporting to submit its concerns in writing. In a related discussion, the AICPA task force alerted the Academy to potential problems with cash flow analysis prepared by actuaries to demonstrate risk transfer on reinsurance contracts and the use of discount rates. Both sides agreed that an actuarial practice note on testing for risk transfer, targeted to address FAS 113 requirements, might be necessary.

► The Academy's Best Estimates Work Group, represented by co-chairpersons Nancy Watkins and Darrel

Knapp, presented a draft of its best estimates white paper for feedback. Members of the AICPA task force responded with comments in April.

► The Academy provided an update on changes to Actuarial Standard of Practice (ASOP) No. 21, *Responding to or Assisting Auditors or Examiners in Connection with Financial Statements*, and invited AICPA to comment on the latest exposure draft of ASOP No. 23, *Data Quality*. The Academy also provided an overview of actuarial interest in international projects on fair value accounting and developing capital standards.

► The AICPA task force gave status reports on several other AICPA projects, including a proposal on accounting for deferred acquisition costs for internal replacements. FASB recently turned down the proposal, but the AICPA plans to meet with FASB shortly to address its concerns. The Academy's Life Financial Reporting Committee has been closely following both this project and a similar effort to develop accounting guidance for nontraditional long-duration contracts.

► Other discussion items included the NAIC/AICPA Working Group revisions to the model audit rule and requirements by the SEC and the NAIC affecting disclosure of loss reserve ranges.

—ETHAN SONNICHSEN

FINANCIAL REPORTING



Seeking Change in Workers' Comp Form

BY ANDREA SWEENEY AND NANCY WATKINS

THE CALIFORNIA DEPARTMENT OF Insurance recently promulgated a form for mandated actuarial statements of opinion on workers' compensation rates that requires the signing actuary to state: "I do hereby certify that the rates shall be adequate to cover the insurer's losses and expenses."

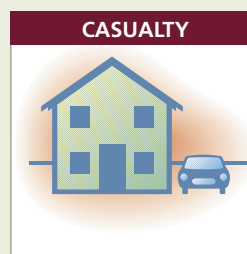
Concerned about the form's language, the Academy's Committee on Property and Liability Financial Reporting and Subcommittee on Workers' Compensation joined together to comment in a letter to California Insurance Commissioner John Garamendi.

The March 12 letter notes that actuarial rate analysis is based on estimates that are subject to significant uncertainty because of changes in the legal, economic, and social environment for workers' compensation and the inherent randomness of workers' compensation losses. The letter also makes the

point that the uncertainty regarding the ultimate adequacy of workers' compensation rates is compounded in California by legislative reforms intended to affect benefit level, medical utilization, and vocational rehabilitation.

Furthermore, the letter states, although an actuary may be able to produce estimates and draw conclusions that are reasonable based on the information available at the time, it is impossible to produce estimates that are sufficiently precise to enable actuaries to certify that manual rates, beyond a doubt, "shall be adequate."

As an alternative, the Academy suggests rewording the form so as to indicate that rates "have been determined in such a manner that they are projected to produce a reasonable estimate of the insurer's losses and expenses for the



anticipated risks."

The letter also suggests language to address additional technical issues regarding the impact of commonly used premium modification plans that may cause ultimate premiums to be higher or lower than manual rates and may

affect ultimate rate adequacy.

The California Insurance Department recently indicated that it plans to respond to the concerns raised in the Academy's letter.

Andrea Sweeney, chairperson of the Committee on Property and Liability Financial Reporting (COPLFR), is a principal with Casualty Actuarial Assistance in Meriden, Conn.

Nancy Watkins, vice chairperson of COPLFR, is a consulting actuary with Milliman USA in San Francisco.



Making an Impression

The Actuarial Update

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MORE REPORTERS ARE LOOKING TO THE Academy as a source, and the visibility of the profession is rising accordingly. The numbers tell the story. In 2003, the Academy generated 212 media placements—more than double the 86 placements in 2002. There were also 101 interviews arranged with Academy spokespersons and 60 media inquiries handled in 2003. The result: 66.9 million media impressions (combined readers, viewers, and listeners), nearly double the number of impressions in 2002.

It gets better. In the first quarter of 2004, the Academy has handled 12 media inquiries and generated 47 placements and 8 interviews, harvesting a total of 30 million media impressions.

“That many media impressions is an impressive start to the year and shows the progress we are making,” said Noel Card, the Academy’s director of communications.

So Far This Year

Sparked by an Academy news release, Philadelphia *Inquirer* columnist Andrew Cassel tried out the [Social Security Game](#) on the Academy’s website and gave it rave reviews in a Feb. 29 [column](#), which also ran in the *Miami Herald*, the *Orange County Register*, and on CNN’s website.

In April, *United Press International* business writer Dar Haddix interviewed Academy Senior Pension Fellow Ron Gebhardtshauer for a major piece on the Academy’s recommendations for Social Security reform. In his article, Haddix also recommended the Social Security Game to readers.

Gebhardtshauer was also quoted in a March 27 *Economist* feature article on retirement written by the magazine’s managing editor Frances Cairncross, and in separate articles on Social Security that ran in the *Los Angeles Times*, the Baltimore *Sun*, and the Fort Worth *Star-Telegram*.

News releases on the Academy’s new election guides on Social Security reform and the uninsured have generated dozens of inquiries for copies.

2003 Year-End Highlights

Barbara Lautzenheiser was the subject of articles in both the *National Underwriter* and *Pensions & Investments* as she became the Academy’s president at the annual meeting in October.

November saw a surge of coverage in the trade press about a report from Standard & Poor’s that unfairly slammed property/casualty actuaries. The Academy was able to generate a balanced article that ran in the Dec. 8 *National Underwriter* (see cover article in the January *Update*), while preventing additional negative stories from being written.

The Academy’s strong presence in the medical malpractice and asbestos liability areas was reflected in numerous interviews with Academy members and subsequent articles in *U.S. News & World Report*, *BusinessWeek*, the *Los Angeles Times*, the *Tampa Tribune*, and on the *Associated Press* wire.

Finally, Gebhardtshauer was quoted in year-end articles on pension issues that ran in the *New York Times*, the *Chicago Sun-Times*, and *Newsday*. ▲



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