



# CUSP Meets CRUSAP Challenge

**A**T ITS JULY 12 MEETING IN MONTREAL, members of the Council of U.S. Presidents (CUSP) signed off on a detailed [response](#) to the recommendations contained in the final [report](#) of the Critical Review of the U.S. Actuarial Profession (CRUSAP) Task Force.

In an accompanying cover letter to members of the CRUSAP Task Force, Academy President William Bluhm wrote that because CUSP is composed of the presidents and presidents-elect of the five major U.S. actuarial organizations, its response represented the response of the entire U.S. actuarial profession. Bluhm, who became the Academy's president this month, is the incoming chairperson of CUSP.

Released late last year, the CRUSAP report assesses how well the U.S. profession is currently positioned to serve the actuarial needs of the public and suggests ways to improve that position. At its conclusion, the report offers 19 recommendations for further action by the profession.

The members of CUSP agreed with most of the recommendations of the CRUSAP Task Force and in their response included their own ideas on how best to implement the CRUSAP recommendations (or, in some cases, referred to how the recommendations are already being implemented). In his cover letter, for instance, Bluhm noted that the creation of CUSP last January by the Academy's Board of Directors was one of the profession's first steps toward meeting the task force's recommendation

See **CRUSAP**, Page 3

ISTOCK/OLIVIER BLONDEAU



Montréal, Quebec

Actuarial UPDATE

## Inside

### Leadership Lineup

New Academy officers come on board at the annual meeting, Oct. 3 **PAGE 4**

### Presidential Review

Steve Lehmann compares promises to achievements. See how his presidential year measures up. . . . . **PAGE 5**

### Who Picks These Guys?

A look at the Academy's leadership nomination process. . . . . **PAGE 6**

### International Accounting

In search of consistent methods of measurement. . . . . **PAGE 11**

## A Coordinated Response on Reserving

**T**HREE ACADEMY PRACTICE COUNCILS commented jointly this summer to the National Association of Insurance Commissioners (NAIC) on its proposed life and health insurance principles for a principles-based reserving framework. The Aug. 17 [letter](#), signed by Robert Miccolis, the Academy's vice president for casualty issues, Dave Sandberg, the Academy's vice president for life issues, and John Schubert, the Academy's vice president for health issues, was sent to the NAIC's Principles-Based Reserving (EX) Working Group.

When the working group exposed the principles for comment at the NAIC's summer national meeting in San Francisco in June, it also provided initial thoughts on specific action items. Responses to the exposed documents are expected from the NAIC's Life and Health Actuarial Task Force (LHATF), the NAIC's Capital Adequacy

Task Force, and the NAIC's Statutory Accounting Principles Working Group, as well as from interested parties, such as the American Council of Life Insurers and America's Health Insurance Plans.

The Academy's collaborative response included input from the Life, Health, Casualty, and Risk Management and Financial Reporting councils. The letter highlights the Academy's support of the principles-based approach for life and annuity products while cautioning the NAIC's working group about the risks of a blanket application across product lines. Stressing the importance of consistency—both in terminology and in the intended effect of the proposed principles upon different lines of business—the letter points to work on principles that is currently being undertaken by LHATF. The Academy provides specific examples of poten-

See **COORDINATED RESPONSE**, Page 6

## OCTOBER

- 1 Council of U.S. Presidents meeting, Washington
- 1-2 SOA 3rd annual equity-based insurance guarantees conference, Chicago
- 2 Academy Board of Directors meeting, Washington
- 3 Academy leadership and annual meeting, Washington
- 4 Academy Health Practice Council meeting, Washington
- 4-6 North American Actuarial Council meeting, Lake George, N.Y.
- 14-16 National Academy for State Health Policy annual meeting, Denver
- 14-17 SOA annual meeting, Washington
- 17 Academy P/C loss reserve opinion seminar, Chicago
- 18 Academy P/C loss reserve opinion seminar, Chicago
- 21-24 ASPAA annual conference, Washington
- 21-24 CCA annual meeting, San Antonio
- 24-25 CCA seminar on healthcare issues for pension actuaries, San Antonio
- 24-25 CCA seminar on medical management measurement, San Antonio
- 25-28 IAA meeting, Dublin, Ireland

## NOVEMBER

- 4 Academy Pension Practice Council meeting, New Orleans
- 5 Academy Pension Committee meeting, New Orleans
- 5-6 SOA federal income tax for life insurers seminar, Atlanta
- 5-8 Academy Life and Health Qualifications Seminar, Arlington, Va.
- 6-7 SOA capital efficiency seminar, Atlanta
- 12-14 CAS annual meeting, Chicago
- 15-18 NCOIL annual meeting, Las Vegas
- 29-30 SOA economic capital seminar, Chicago
- 30-December 3 NAIC winter meeting, Houston

## DECEMBER

- 3-7 SOA asset liability management seminar, Phoenix
- 5-6 ASB meeting, Washington
- 6-7 SOA insurance seminar on economic capital, Chicago
- 12 Academy Executive Committee meeting, Orlando, Fla.

## JANUARY

- 7-9 SOA Living to 100 Seminar, Orlando, Fla.

## WEB INTERFACE

Links to documents underlined in blue are included in the online version of this issue at [www.actuary.org/update/index.asp](http://www.actuary.org/update/index.asp)

## Academy NEWS Briefs

## Countdown to Dues Mailing

IS YOUR CONTACT INFORMATION with the Academy current? As the Academy once again prepares for the 2008 dues cycle, we'd like you to take a moment to verify your member record via the Academy's [website](#). We are committed to providing services to our members that help you get connected and stay connected. Having current mail and e-mail addresses is an important part of that process.

**To verify or update your member contact information via the Academy website:**

1. Log in to the site. You'll go to the member welcome page.
2. Under "Your Academy account," click "Update your member record."
3. Verify your employer, position, preferred address, alternate address, daytime phone number, and e-mail.

While you are checking your profile, take a moment to get particulars on any outstanding balances and amounts paid in your Academy account. The invoices and receipts have a printer-friendly version that you can use if you need to submit them to accounting departments or for your own records.

**Call us or e-mail us to stay connected:**

Contact Rachel Rusch, the Academy's assistant director of membership relations and administration ([rusch@actuary.org](mailto:rusch@actuary.org); 202-785-7871). She is also the person to contact if you have questions about receiving Academy material or need more assistance.

**Legislative Recognition** On Sept. 19, Rep. Fortney "Pete" Stark (D-Calif.) submitted an amendment for the markup of H.R. 1424, the Paul Wellstone Mental Health and Addiction Equity Act of 2007, requiring that determinations as to increases in actual costs under a plan (or coverage) must be made by a qualified actuary who is a member in good standing of the Academy. To access the full text of the bill (or any other legislation mentioned in the *Update*), go to the Library of Congress website, <http://thomas.loc.gov>, and type the bill number in the search box.

## IN THE NEWS

**Patrick Collins**, a member of the Academy's Health Practice Council, vice chairperson of the Academy's Committee on Federal Health Issues, a member of the *Update* edito-

rial board, and vice president of Munich Re America HealthCare in Princeton, N.J., was a call-in guest during Bill Bennett's Aug. 3 "Morning in America" radio show. Collins encouraged listeners to visit the Academy's [website](#) to learn more about social insurance reform.

The Academy [issue brief](#) "Women and Social Security" continued to attract media attention, with articles referring to it appearing in the Aug. 3 edition of the *Arizona Republic*, in the Aug. 18 online edition of *Newsday*, and the Aug. 24 online edition of the *St. Petersburg Times*.

Academy Senior Health Fellow **Cori Uccello's** Aug. 7 presentation at a National Conference of State Legislatures meeting was broadcast several times on the Con-

necticut Network, a regional public policy television station. Her presentation focused on defining risk pools and explaining adverse selection. Creating larger risk pools will not necessarily lower premiums, she said.

**Henry Siegel's** Aug. 22 [presentation](#) to the National Association of Insurance Commissioners on international accounting issues (see story, Page 11) was the subject of an Aug. 23 Bureau of National Affairs article. Siegel, who is chairperson of the Academy's Financial Reporting Committee and of its International Financial Reporting Standards Task Force and vice president, office of the chief actuary, for New York Life Insurance Co. in New York, said the Academy would support a joint project by the Financial Accounting Standards Board and

## MEDIA RELATIONS ACTIVITY REPORT—AUGUST 2007

4 Requests    4 Interviews    27 Placements

Media Impressions:  
**986,881**

Web Impressions:  
**2,047,218**

Note: Media impressions are a combination of readership, listenership, and viewership. Web impressions are distinct from media impressions and reflect the number of daily, unique individuals who access a website. A placement is an article containing an Academy reference and/or a quote or attribution from an Academy spokesperson. A pickup is the publication of an Academy news release, media alert, statement, or letter to the editor.

the International Accounting Standards Board to develop common high-quality guidance for insurance contracts.

The Academy was the source of life expectancy and longevity data in an Aug. 31 *USA Today* feature story on phased retirement.

**John Rollins**, an actuary with AIR Worldwide in Tallahassee, Fla., was quoted in a July 15 *St. Petersburg Times* article on a 2006 Florida state law providing insurers an incentive to purchase reinsurance from their parent companies.

### KUDOS

► **Richard Foster**, chief actuary for the Centers for Medicare & Medicaid Services, was No. 16 on a list of the 100 most powerful people in health care in the Sept. 3 issue of *Modern Healthcare* magazine. To create the list, the

magazine solicited nominations from readers. Out of 12,600 nominations from more than 26,400 readers, 300 individuals receiving the most nominations made it onto the final ballot.

As chief actuary, Foster is responsible for all actuarial and other financial analyses for Medicare and Medicaid. His work affects 70 million Medicare and Medicaid beneficiaries, 155 million current workers, and virtually all U.S. health care providers. Foster was the 2006 recipient of the Academy's Robert J. Myers Public Service Award and is a former member of the Academy's Board of Directors.

► **Thomas Levy**, senior vice president and chief actuary for the Segal Co. in Toronto, has been named to a panel of actuaries who will review the 23<sup>rd</sup> Actuarial Report on the Canada Pension Plan. Produced every three years,

the report is considered by Canadian federal and provincial ministers of finance when reviewing and making recommendations on the pension plan. Levy is currently vice chairperson of the Canadian Institute of Actuaries' Practice Council (Standards).

### ON THE MOVE

► **Edmund Kelly**, chairman, president, and chief executive officer of Liberty Mutual Group in Boston, has been named to the board of directors of EMC Corp., a developer and

provider of information infrastructure technology in Hopkinton, Mass.

► **Miles Yakre** has been named senior vice president and chief actuary for Assurant Employee Benefits in New York. He was previously senior vice president, corporate actuary, and treasurer for Assurant Inc.

► **Kristen Albright** has been named chief actuary for Hanover Insurance Group in Worcester, Mass. She was formerly personal lines chief actuary for Liberty Agency Markets of Liberty Mutual.

## CRUSAP, continued from Page 1

that the U.S. actuarial profession move toward consolidation.

In fact, said Steven Lehmann, the Academy's immediate past president, "we have already moved to address a number of the recommendations from the CRUSAP Task Force." These include ongoing CUSP discussions with the Actuarial Standards Board (ASB) on developing standards of practice for emerging principle-based regulations; the passage by the Academy's Board of Directors of a new Qualification Standard with expanded continuing education requirements; and a provision in the Academy's new strategic plan for the creation of a Public Interest Committee that will be charged with ensuring that the profession is mindful of the public interest.

In the case of some of CRUSAP's recommendations, CUSP felt that no further action needed to be taken. A recommendation that individual actuaries be encour-

aged to gain sufficient knowledge to speak out on actuarial elements of major public issues, for instance, is already being met by the activities of the Academy's public policy committees and publications, the CUSP response stated.

"This has been a major element of the Society of Actuaries' new marketing plan: to showcase the technical knowledge that actuaries have," said Ed Robbins, immediate past president of the SOA. "It's not enough to merely advertise how great we are; we need to individually show our technical skills in areas that our public cares about."

In a detailed reply that responded point by point to CUSP's findings, CRUSAP Task Force Chairperson Fred Kilbourne thanked CUSP for carrying the process forward. "You are ably handling the baton we have passed to you, and you appear to be running diligently toward our common goal of better meeting the actuarial needs of the public."

While Kilbourne disagreed with CUSP's assessment in a few areas, he was heartened by its hard work to reach consensus on sometimes difficult issues. "On behalf of a needy, if not quite grateful public, thank you for your excellent efforts to bring the hopes and dreams of the CRUSAP Task Force to fruition," Kilbourne wrote.

By all accounts, the feeling is mutual. Pointing to the number of Academy initiatives being planned or underway that relate directly to recommendations of the CRUSAP Task Force, Bluhm applauded task force members for their time and dedication in preparing the report. "They got people talking about this, and that is a good thing," Bluhm said. "They got the ball rolling, and we are taking it from there."

To read the CUSP response to CRUSAP in its entirety, go to the Academy's [website](#). ▲

# NEW ACADEMY OFFICERS

The Academy's Board of Directors has approved the slate of 2008 Academy officers put forward by the Nominating Committee. New officers assumed their duties at the Academy's annual meeting in Washington on Oct. 3. The new officers are:



**JOHN PARKS**  
**PRESIDENT-ELECT**

PARKS has served the Academy in a variety of capacities, including secretary-treasurer, chairperson of the Budget and Finance Committee, a vice president for pension issues, and editor of the *Enrolled Actuaries Report*. He has also served on the Board

of Directors and is the former chairperson of the Committee on Technology and a former member of the Committee on Qualifications. Now retired after 45 years as an employee benefit consultant and actuary, Parks was president of a consulting firm that ultimately became part of the Actuarial Consulting Group of Principal Financial in Pittsburgh. He previously served as president and as a member of the board of directors of the American Society of Pension Actuaries, now the American Society of Pension Professionals and Actuaries (ASPPA), and as a vice president for professionalism, a vice president for member services, and a member of the board of directors of the Conference of Consulting Actuaries. He is a fellow of the CCA, a member of ASPPA, and an enrolled actuary.



**ANDREA SWEENY**  
**SECRETARY-TREASURER**

SWEENY is a former member of the Board of Directors and of the Casualty Practice Council, where she served as vice chairperson of the council and as chairperson of its Committee on Property and Liability Financial Reporting. She has also served on the Risk Management and Financial Reporting

Council and as vice chairperson of its Financial Reporting Committee. Sweeny, who has spent over 30 years in the insurance industry, established Casualty Actuarial Assistance in Meriden, Conn., nearly six years ago. Formerly, she was a consulting actuary and senior manager for both Arthur Andersen and Deloitte and Touche. Earlier in her career, she worked for CIGNA Corp. and its predecessor companies and served as an economist in the Office of Productivity and Technology at the U.S. Bureau of Labor Statistics. She is a fellow of the Casualty Actuarial Society and of the Conference of Consulting Actuaries.



**THOMAS CAMPBELL**  
**VICE PRESIDENT FOR LIFE ISSUES**

CAMPBELL is a former member of the Board of Directors and former vice chairperson of the Life Practice Council. Involved in Academy activities since 1994, he has served on a number of Academy committees, subcommittees, and work groups

dealing with issues surrounding principles-based approaches for reserves and risk-based capital and has chaired the Variable Annuity Reserves Work Group and co-chaired the CARVM Multiple Benefits and Minimum Guaranteed Death Benefits Reserve work groups. Campbell has worked for the Hartford Life Insurance Cos. in Simsbury, Conn., since 1983 and is currently vice president and corporate actuary. In that position, he is responsible for the actuarial review of financial reporting, reserve valuation, and reinsurance. He is a fellow of the Society of Actuaries.



**JAMES RECH**  
**VICE PRESIDENT FOR  
RISK MANAGEMENT AND  
FINANCIAL REPORTING ISSUES**

RECH is a member of the Risk Management and Financial Reporting Council and former chairperson of the Enterprise Risk Management Task Force and the Risk Management

and Solvency Committee. He founded AmeRisk Consulting in Phoenix in January 2007. Previously, he held positions as a senior consultant with Coopers and Lybrand, as a team leader for Watson Wyatt, as a senior consultant for Tillinghast Towers Perrin, and prior to forming AmeRisk, as vice president at GPW and Associates. Rech is a former member of the Critical Review of the U.S. Actuarial Profession (CRUSAP) Task Force, a former president of the Casualty Actuaries of the Desert States, and a former co-chairperson of the Casualty Actuarial Society's working party on the DRM Handbook. He is a fellow of the Conference of Consulting Actuaries and an associate of the Casualty Actuarial Society and of the Society of Actuaries. Rech also holds designations as a CFA (chartered financial analyst) charterholder, a financial risk manager, and a professional risk manager.



**THOMAS TERRY**  
**VICE PRESIDENT FOR PENSION ISSUES**

TERRY is member of the Pension Practice Council and former chairperson of its Stock Options Task Force and of its Defined Benefit Revitalization Task Force. He has also served as a member of the Board of Directors. A specialist in

employee benefit, compensation, and retirement systems, Terry is chief executive officer of JPMorgan Compensation and Benefit Strategies in Chicago. He was formerly the president and co-founder of CCA Strategies, which was acquired by JPMorgan in 2006. Terry is the former president and the former treasurer of the Conference of Consulting Actuaries and a member of its board of directors. He is a fellow of the Conference of Consulting Actuaries, a fellow of the Society of Actuaries, and an enrolled actuary. ▲

# Looking Back

BY STEVEN LEHMANN

**A** YEAR AGO, I LAID OUT PRIORITIES for my year as president of the Academy. It's been a very interesting and rewarding year. But now it's time to compare actions with words.

How did we do?

As my first priority, I wanted the Academy to get better connected with its members. This is probably the area in which I have worked hardest as your president. In the spring, the Academy conducted its first-ever membership survey and asked members to choose and rank the committees where they wanted to serve. Positive responses were received from more than 400 members, many volunteering for the first time.

This survey wasn't a one-time initiative but will become a permanent foundation for Academy volunteerism. We created a new Academy Volunteer Resources Committee to ensure that survey results are compiled and distributed to the appropriate groups and new volunteers are appropriately placed. Efforts are also underway to enforce term limits and bring new faces to the committees. We have opened the nomination process for the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline to facilitate nominations, including self-nominations, directly from members. Finally, we launched a membership drive to contact prospective and former Academy members and encourage them to join us in the work of the Academy.

My second priority was to demonstrate and communicate value to our members. Here, too, we made tremendous progress. Initiatives of the past year include:

- ▶ The development of a new strategic plan that revisits our mission and vision to make sure that both are in tune with the needs of our members. The strategic plan also calls for a review of Academy communications to determine if changes are necessary and a review of each practice council's efforts.
- ▶ Renewed efforts by the five major U.S. actuarial

organizations to encourage cooperation. The Academy's Board of Directors created a new subcommittee, the Council of U.S. Presidents, to encourage greater efficiencies and coordination between the five sister organizations, and I truly believe that it has never been better. Partly as a result of these efforts but mostly from the hard work and efficiency of the Academy's Washington staff, the Board of Directors recently voted not to increase Academy dues for the first time in more than 10 years.

Last but certainly not least, during my presidential year, I emphasized the importance of participating in and leading, where appropriate, the



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profession's image campaign. As a result, we have taken a more active role in the branding initiatives of the Society of Actuaries, including taking the lead in those regarding the image of actuaries with public policymakers.

I offer my thanks to Kevin Cronin, the Academy's executive director, the dedicated Academy staff, and also to the many people who have helped us make significant progress in the past year.

I am confident that I am leaving the Academy in good hands with our new president, Bill Bluhm. During his tenure as president-elect, he chaired the strategic planning committee. And, through a variety of other activities, he fostered a true spirit of cooperation among leaders in the profession. If his past contributions to the Academy are a predictor of the future, we can look forward to great leadership from Bill.

**Steven Lehmann becomes the Academy's immediate past president on Oct. 3.**

## Selective Service

At the Academy's annual meeting earlier this month (look for full coverage in the November *Update*), John Parks took office as the Academy's new president-elect, Andrea Sweeny stepped into the position of the Academy's secretary-treasurer, and Tom Campbell, James Rech, and Tom Terry came on board as new Academy vice presidents for, respectively, life issues, risk management and financial reporting issues, and pension issues. At the same meeting, Larry Bruning, Art Panighetti, and Kathleen Riley assumed positions as regular directors on the Academy's Board of Directors.

So, who picked these guys, anyway?

Well, the Academy's Board of Directors. But the board didn't do it alone. It relied on the recommendations of the Nominating Committee, composed of the Academy's past president, immediate past president, president, and president-elect, and the presidents-elect of the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries (SOA).

"Because of the desire, even necessity, of getting representation from a broad spectrum of actuaries, the Academy has a different process for choosing its officers than some might expect," explained former Academy President Bob Wilcox, who chaired this year's Nominating Committee.

Unlike its sister organizations, which elect officers from the membership, the Academy must take into account the fact that it is the umbrella organization that represents the entire U.S. actuarial profession, Wilcox said.

"If you ran a popular election, you might find yourself in a situation where most of the leaders are members of the SOA because that is the organization that has the largest coincidence of members with the Academy," Wilcox said.

Instead, Wilcox said, the Nominating Committee tries to identify candidates from all branches of the profession who have the ability to bridge between the Academy and other organizations. The committee looks closely at the relationships, competencies, and leadership skills that each candidate brings to the table, Wilcox said, and places a strong emphasis, particularly when choosing regular directors, on maintaining a balance among representatives of the different branches of the profession.

This will come as a shock to nobody, but the actuaries who

serve on the Nominating Committee follow a detailed, organized process in conducting their yearlong review of candidates, using task lists and spreadsheets as they ponder potential nominees. Recommendations of potential candidates are always invited, Wilcox said, although heavy lobbying of a particular individual is probably counterproductive.

"That can disturb the orderly process of looking at all the nominees together and selecting the right person to serve at a particular time," Wilcox said.

One area of ongoing debate concerns the benefits of picking board members who have a lot of volunteer experience in Academy committees and task forces versus choosing new faces who bring little experience but perhaps a fresh outlook to the leadership level.

"Ultimately, I fall on the side of experience, particularly with the special directors who are the guts of the board," said Peter Perkins, the Academy's immediate past president, who takes over chairmanship of the committee this month. "They should be familiar with the Academy and how it works."

And the board, because of its size and because it includes representatives of all the U.S. actuarial organizations, is naturally diverse, Perkins said. "One of our sister organizations has had non-actuary presidents," Perkins said. "I have found quite frankly that having them on the board is a breath of fresh air. They don't have the parochial concerns of those of us who have taken the exams. They bring a whole new perspective."

Wilcox agrees, but with some caution. "There is an observable tendency to have people that look alike," Wilcox said. "You have to work within the demographics that you have, but I would like to see more diversity making its way up the chain."

For Academy members who are interested in moving into leadership positions, the best way to start is to get involved working on a work group or task force in your area of interest, Perkins said. Even if you don't aspire to a higher leadership position, the benefits of volunteering for the Academy, including project management and leadership skills, translate beneficially to other aspects of your life.

"If an actuary wants to develop leadership skills, serving on a committee is a great way to do it," Wilcox said. "Instead of trying to absorb these skills by osmosis, you are exposed to some of the top leaders in the field who can mentor you as you apply these skills firsthand." ▲

### COORDINATED RESPONSE, continued from Page 1

tial conflicts between the lines of business, drawn from the experience of Academy volunteers, that will need to be addressed before a principles-based approach can be successfully implemented.

Along with comments on specific sections of the proposed principles, the letter sets out three suggested concepts to be used by the NAIC in its work to finalize corporate governance principles:

- Governance requirements for risk management should be addressed separately from governance requirements for principles-based reserves and capital.
- Corporate governance requirements should be principles-based and flexible.
- To the extent possible, corporate governance requirements should coordinate with requirements of regulatory bodies and international regulators.

The NAIC working group scheduled some time during its fall national meeting in Washington earlier this month to discuss the comments it received. Details on further action will be available in upcoming issues of the *Update*. More information on the Academy's work on the principles-based approach is available on a special [page](#) on the Academy's website.

—GERALYN TRUJILLO



# Academy Revisits Mental Health Coverage Issues

**U**RGING POLICYMAKERS to balance the concerns of the public, the needs of health plans, and the affordability of health insurance while considering current mental health parity legislation,

the Academy's Mental Health Parity Work Group in September released an updated [version](#) of its 2004 issue brief, *Mental Health Parity: Often Separate, Usually Unequal*.

In an accompanying cover [letter](#)

sent to members of Congress, the work group noted that an estimated 44 million Americans suffer from a mental disorder, with only one-third receiving treatment. The federal Mental Health Parity Act of 1996 was intended to extend annual and lifetime limits on mental health benefits equal to those offered on medical and surgical benefits. However, it doesn't mandate coverage of mental health benefits. Current proposals, like the Paul Wellstone Mental Health and Addiction Equity Act of 2007 (H.R. 1424) and the Mental Health Parity Act of 2007 (S. 558), seek to expand mental health parity requirements. These proposals would also expand the definition of mental health benefits to include substance abuse disorders.

But what are the implications of expanding these requirements, specifically the impact on other medical costs? In the updated issue brief, the work group provides background on the topic and weighs the costs of expanding coverage requirements from the perspective of employers, insurers, and consumers. Issues discussed include:

- The current state of mental health coverage, including current legislative proposals that would expand requirements;
- The effect of enhanced mental health parity requirements on mental health insurance costs;
- The effect of expanding mental health coverage on other medical costs;
- The impact on prescription drug usage and costs;
- The impact of mental health managed care on the cost of mental health parity requirements;
- The transfer of public mental health costs to the private sector.

Donna Novak is chairperson of the work group. Other members include John Anderson, Ronald Bachman, Dan Bailey, James Gutterman, Joseph Korabik, Stephen Melek, and John Price. ▲

## HEALTH BRIEFS

- ▶ **Charles Smith**, senior actuary with the Principal Financial Group in Des Moines, Iowa, is the chairperson of the Academy's newly formed Small Group Certification Practice Note Subgroup. Other subgroup members are **Julie Berquist**, vice president and group pricing actuary for Assurant Health in Milwaukee; **Stephen Custis**, vice president and director of health actuarial services for Federated Mutual Insurance Co. in Owatonna, Minn.; **Earl Hoffman**, a senior consultant with Reden & Anders in Minneapolis; **Olga Jacobs**, regional vice president for UnitedHealthcare in Hartford, Conn.; **Darrell Knapp**, executive director of Ernst & Young in Kansas City, Mo.; **Jim Murphy**, senior vice president and chief actuary for American Community Mutual Insurance Co. in Livonia, Mich.; **James O'Connor**, principal and consulting actuary with Milliman in Chicago; **Bernard Rabinowitz**, an actuary with Ascent Assurance Inc. in Fort Worth, Texas; and **Russ Willard**, actuarial director with Humana Inc. in Louisville, Ky. Hoffman has also joined the Academy's Health Practice Financial Reporting Committee.
- ▶ **Darrell Knapp** is chairperson of the Academy's new Medicare Part D Accounting Practice Note Subgroup. Other members are **Rowen Bell**, manager at Ernst & Young in Chicago; **Corey Berger**, senior director—corporate actuarial support for WellCare Health Plans in Atlanta; **Brian Collender**, senior manager with Deloitte Consulting in Chicago; **Troy Filipek**, an actuary with Milliman in Brookfield, Wis.; **James Galasso**, president of Actuarial Modeling in Atlanta; **Harry Hotchkiss**, actuarial director, Medicare, for Humana in Louisville, Ky.; **J. Patrick Kinney**, vice president of actuarial services for Tufts Health Plan in Watertown, Mass.; **Barbara Lawson**, associate actuary for Tufts Health Plan in Watertown, Mass.; **Rob Pipich**, an actuary with Milliman in Wayne, Pa.; **Yi-Ling Lin**, a consultant with JPMorgan Compensation and Benefit Strategies in Chicago; **Timothy Meyers**, vice president and chief actuary for Coventry Health Care Inc. in Bethesda, Md., and **Russ Willard**.
- ▶ Joining the Academy's Health Principles-Based Work Group are **Bram Spector**, an actuary with Deloitte Consulting in Chicago, and **Doug Taylor**, second vice president and actuary with Mass Mutual in Springfield, Mass.
- ▶ Joining the Academy's Long-Term Care Principles-Based Work Group are **Chuck Coatsworth**, an associate actuary with Milliman in Wayne, Pa., and **Erik Poppe**, an assistant actuary with LifeSecure Insurance Co. in Brighton, Mich.
- ▶ **Douglas Levit**, vice president actuarial services for Alliant Insurance Services in Alpharetta, Ga., has joined the Academy's Disease Management Work Group.
- ▶ **Shiraz Jetha**, an actuary in the Office of Insurance Commissioner in Tumwater, Wash., and **Max Tang**, an associate actuary with the California Department of Health Services in Sacramento, have joined the Academy's Health International Task Force. Tang has also joined the Academy's Medicaid Work Group.
- ▶ **Johnathan Chernick**, an actuarial analyst with Humana in Green Bay, Wis., has joined the Academy's CDHP Work Group and its Emerging Data Subgroup.



## Keeping Social Security Stable

**A**NTICIPATING THAT DEBATE on Social Security reform will heat up as the presidential election nears, the Academy's Social Insurance Committee has developed a new [issue brief](#) to help frame the discussion.

*Social Security: Evaluating the Basic Benefit Structure* looks at the nation's oldest and (by measure of annual benefits paid) largest social insurance program with an eye toward whether its defined benefit (DB) structure is preferable to a defined contribution (DC) structure for providing basic benefits under Social Security.

When Social Security was first enacted, its clearly defined purpose was to create a reliable minimum retirement benefit for those living past the age of 65. Owing, in part, to the market collapse of 1929, Social Security was modeled after DB pension plans so as to minimize risk to the individual. While much has changed, both within the Social Security system and in the financial world, Social Security's purpose of providing a reliable retirement benefit hasn't altered significantly.

According to the issue brief, the biggest advantage of the system's current DB approach is its stability. While individuals enrolled in DC pension plans can try to predict how much they will have upon retirement, their calculations will always be at the mercy of market volatility. Not only does a DB structure ensure a base of protection against the fluctuation of the markets, it also mitigates individual longevity risk because it incorporates a large pool of recipients.

As more and more corporate retirement plans are shifting toward a DC structure, Social Security's predictable lifetime guarantees have become a crucial element in the traditional three-legged stool of retirement income. If all three legs of the stool (represented by Social Security benefits, private pension benefits, and personal savings) relied on a DC plan structure, the volatility of the market could leave whole cohorts of retirees with inadequate retirement incomes, even if they were good investors.

The issue brief offers some stark statistics to back up its concerns. Currently,

almost two-thirds of Social Security beneficiaries aged 65 and older rely upon it for more than half of their retirement income. Of beneficiaries who are older than 75, three-quarters rely on Social Security for more than half of their retirement income. Of greater concern, over one-third of beneficiaries who are older than 65 and 40 percent of beneficiaries older than 75 rely on Social Security for more than 90 percent of their income in retirement.

However, utilizing a DC approach, such as individual accounts, could work well as a supplement to benefits provided under the current DB structure. Positive attributes of the DC approach include allowing participants to make their own choices on investment strategy and portfolio make-up and to pass along part of the funds that they accumulate to their heirs. But while these goals are worthwhile, the issue brief states, they are not necessarily consistent with Social Security's primary purpose of providing basic retirement and disability protection to U.S. workers.

—SAMUEL GENSON

## Academy Disputes IRS Position on Cash Balance Plans

**T**he Academy's Pension Committee recently requested that the Treasury Department reconsider its method for applying an anti-backloading rule (the four-thirds rule) to [cash balance plans](#).

In a Sept. 6 letter signed by Pension Committee Chairperson James

Verlantz, the Academy referred to the position recently taken by the Internal Revenue Service (IRS) saying it will disqualify certain cash balance plan sponsors because of purported violations of the anti-backloading test caused by transition provisions included in the plan conversions. The plans in question have one attribute in common—they provide that some or all employees at the conversion date will receive the greater of the cash balance benefit and the prior plan benefit.

"We are concerned that after all these years during which cash balance plans and their sponsors have been stuck

in regulatory limbo, and after Congress thought it had clarified the legal issues for these plans with the passage of the Pension Protection Act (PPA), the IRS is now trying to impose a result that is totally inexplicable," wrote Verlantz in the letter. "Apparently employers who voluntarily designed their plans to be more generous than what Congress ultimately required in PPA are being penalized for that generosity."

Given the significant number of plans that would be adversely affected by the current method, the Academy urged Treasury and IRS officials to reconsider their position. ▲

# Cost Accounting Standards for Pensions

**A** TASK FORCE of the Academy's Pension Committee commented in September on a Cost Accounting Standards Board discussion paper on harmonizing certain existing cost accounting standards with provisions of the Pension Protection Act of 2006.

The board, which is housed in the Office of Federal Procurement Policy at the Office of Management and Budget, was asked by Congress to review and revise Sections 412 and 413 of the Cost Accounting Standards to correspond with minimum required contributions under the Employee Retirement Income Security Act (ERISA).

When it developed the original cost

accounting standards for pensions in 1992, the board tried to stay within the general constraints of existing financial accounting and the funding provisions of ERISA. While significant changes have been made to ERISA funding requirements and the financial accounting rules applicable to pensions, the standards have remained largely unchanged, except for 1995 amendments related to the treatment of full funding and segment closings.

In its [letter](#) to the board, the Academy's Cost Accounting Standards Task Force suggested taking a fresh look at the proper approach to assigning costs for government contracting purposes rather than focusing on how to adjust the current

rules to make them more compatible.

The Academy's letter provides comments on many aspects of the board's proposed work, including scope; general purpose; harmonization; cost measurement; implications for at-risk plans; cash flow considerations; volatility in contract cost projections; segment closings, plan terminations, and benefit curtailments; technical issues; available data on costs under cost accounting standards versus the Pension Protection Act; and records and visibility.

It is expected that the Academy's comments, along with other comments received by the board, will be reflected in a report to be published in the *Federal Register*. ▲

## Substitute Mortality in Pension Funding Calculations

**I**N AN AUGUST [letter](#) to the Internal Revenue Service (IRS), the Academy's Pension Committee commented on proposed regulations governing the use of substitute mortality tables in determining present value for pension funding calculations.

"Using the most accurate mortality assumptions is imperative to appropriate funding of pension plans' obligations," wrote James Verlautz, chairperson of the Pension Committee. "We are troubled by the approach in the proposed regulation that would require, in many situations, statistically significant differences in mortality to be ignored in computing a plan's funding target."

The proposed regulations allow only plans (or a group of plans sponsored by the same company) with 1,000 observed deaths in a given gender to use alternative mortality assumptions. This would force many plans with sufficient data proving that their experience is statistically different from standard tables to ignore that information. At the same time, it would allow other plans with more observed deaths to develop their own tables even when their plans' experience is within normal fluctuation from the standard tables.

Because credibility theory addresses how much a group's experience is due to random variation and how much is due to differences from the standard table, the letter points out that actuaries commonly combine a group's experience with published tables. For situations where a plan's experience differs from the standard tables by a statistically significant amount, the Pension Committee recommends that the IRS' guidance allow mortality assumptions that combine the actual experience for plan participants with published mortality tables. ▲

### PENSION BRIEFS

- ▶ Joining the Academy's Public Plans Subcommittee are **Brad Armstrong**, senior consulting actuary with Gabriel Roeder Smith & Co. in Southfield, Mich.; **John Bartel**, an actuary with Bartel Associates in San Mateo, Calif.; **Michael de Leon**, a senior manager with Deloitte Consulting in Minneapolis; **Martin McCaulay**, senior pension actuary with the Washington Office of the State Actuary in Olympia; **Robert McCrory**, executive vice president and director, Northwestern region, for EFI Actuaries in Seattle; **Robert North**, chief actuary in the New York City Office of the Actuary; **Karen Steffen**, principal and consulting actuary with Milliman Inc. in Seattle; and **Ira Sumner**, president of Public Pension Professionals in Oakland, Calif.
- ▶ **Dick Schreitmueller** of Kensington, Md., has joined the Academy's Social Insurance Committee.
- ▶ **Gary Bayer**, an actuary with JPMorgan Compensation and Benefit Strategies in Chicago, is the chairperson of the Academy's new Cost Accounting Standards Board Work Group. Other members are **Julie Curtis**, director of actuarial services for the Boeing Co. in Seattle; **Mark Dungan**, a principal with Towers Perrin in Philadelphia; **Elliott Friedman**, director of benefits finance for Lockheed-Martin Corp. in Bethesda, Md.; **Doug German**, chief actuary-retirement for Buck Consultants in St. Louis; **John McQuade**, president of Pine Cliff Consulting Inc. in Framingham, Mass.; **Joel Rich**, senior vice president with Sibson Consulting, a division of the Segal Co., in New York; **Patrick Ring**, an actuary with the Department of Energy in Washington; **Judy Stromback**, a principal with Deloitte Consulting in Minneapolis; **Thomas Terry**, CEO of JPMorgan Compensation and Benefit Strategies in Chicago; **Deborah Tully**, director of benefits finance for Raytheon Co. in Waltham, Mass.; **James Verlautz**, a consultant with Mercer Human Resource Consulting in Minneapolis; **Veda Wild**, an actuary for the Centers for Medicare & Medicaid Services in Baltimore; and **James Winer**, a principal with Mercer Human Resource Consulting in Boston.



# Comments on Terrorism Insurance Backstop

**S**HORTLY BEFORE ITS PASSAGE in the House, the Academy's Terrorism Risk Insurance Subgroup commented on H.R. 2761, the Terrorism Risk Insurance Revision and Extension Act of 2007. Current terrorism insurance legislation expires at the end of this year. The Sept. 19 [letter](#) followed informal conversations that subgroup members held with congressional committee staff shortly before the bill was introduced in June.

Along with its comments on the proposed legislation, the subgroup attached its April 2006 [letter](#) to the President's Working Group on Financial Markets. The letter offered responses to specific questions posed by the working group on the future of terrorism risk insurance in the United States.

The subgroup has long maintained that the magnitude and unpredictability of losses due to terrorist events require a federal backstop to make

terrorism coverage widely and readily available. In its letter, the subgroup also suggests that any proposed legislation contain a mechanism to develop recommendations for a permanent way of dealing with terrorism risk.

With regard to H.R. 2761, the subgroup had the following specific comments:

■ The bill uses the phrase "good faith actuarial analysis" but doesn't define it. Neither the actuarial community nor the insurance industry has an established definition for this phrase. Without more detail, the subgroup was unsure how the actuarial profession would respond to this language in practice.

■ The bill requires the President's Working Group to consult with a number of professionals as it analyzes the long-term availability and affordability of terrorism risk insurance in the private market. The subgroup suggested that actuaries be included on this list.

■ The bill establishes a commission to make recommendations to facilitate the availability of private market terrorism risk insurance coverage and to sustain and supplement the insurance industry's ability to cover losses caused by terrorist acts. A number of the seats on the commission are allocated to representatives of the insurance and finance industries. The subgroup would like to see actuaries represented on the commission.

—LAUREN PACHMAN

## CASUALTY BRIEFS

- Joining the Academy's Casualty Practice Council are **Robert Giambo**, chief reserving actuary, Americas P/C, for Swiss Re in Armonk, N.Y., and **Paul Kneuer**, senior vice president and chief reinsurance strategist for the Holborn Corp. in New York.
- **William Von Seggern**, an associate actuary with Fireman's Fund Insurance Cos. in Novato, Calif., is the new chairperson of the Academy's Terrorism Risk Insurance Subgroup.

## LIFE BRIEFS

- Joining the Academy's Annuity Reserves Work Group are **Stephanie Adelhardt**, an assistant actuary with Security Benefit Life Insurance Co. in Topeka, Kan., **Drew Besendorf**, an actuary with Aegon USA Inc. in Louisville, Ky.; **Scott Shepherd**, an associate actuary with ING in Hartford, Conn., and **Cheryl Tibbits**, a consulting actuary with Towers Perrin in Atlanta. Kline has also joined the Academy's Life Practice Council and its Illustrations Work Group.
- **Ted Lyle**, chief actuarial officer for Specialized Care Services, UnitedHealth Group in Minnetonka, Minn., has joined the Academy's Group Term Life Waiver Table Work Group.
- **Max Rudolph**, chairperson of the Academy's Economic Scenarios Work Group and a principal with Rudolph Financial Consulting LLC in Omaha, Neb., has joined the Academy's Life Financial Soundness/Risk Management Committee.
- Joining the Academy's Modeling Efficiency Work Group are **Nathan Campbell**, a consulting actuary with Actuarial Resources Corp. in Overland Park, Kan., and **Tony Dardis**, a consulting actuary with Towers Perrin in Atlanta.
- **Brian Lessing**, vice president and actuary for AXA Equitable Life Insurance Co. in New York, has joined the Academy's Nonforfeiture Improvement Work Group.
- **Brian Holland**, an associate actuary with MARC in Atlanta, has joined the Academy's Life Valuation Subcommittee.
- **Shawn Loftus**, vice president, modeling and analysis, for USAA Life Insurance Co. in San Antonio, is the chairperson of the Academy's newly formed Group Life Table Work Group.
- **Martin Kline**, a senior actuary with Allianz Life Insurance Co. of North America in Minneapolis, has joined the Academy's Life Practice Council and its Illustrations Work Group. Also joining the Illustrations Work Group is **Mike Reese**, an associate actuary with Haise Actuarial Solutions in Omaha, Neb.
- **Stevens Woods**, second vice president at Aflac Inc. in Columbus, Ga., has joined the Academy's Invested Asset Work Group.



# Academy Weighs International Accounting Issues

BY HENRY SIEGEL

**A**T AN AUG. 22 MEETING of the National Association of Insurance Commissioners' (NAIC) International Accounting and Solvency Working Group, I presented the Academy's preliminary [views](#) on a discussion paper by the International Accounting Standards Board (IASB) on insurance contracts and on a document of the Financial Accounting Standards Board (FASB) on the same topic. Joining me at the presentation and providing their own comments during the discussion periods were two other members of the Academy's International Financial Reporting Standards Task Force—Ralph Blanchard and Tom Herget.

The NAIC's working group was preparing its own comments on the IASB discussion paper for submission to the International Association of Insurance Supervisors and was interested in hearing from the Academy and other interested parties as part of its deliberations.

Our comments focused on items of actuarial concern, particularly wording that seemed to set unclear valuation requirements and sections describing the consequences of those requirements that might be misleading or less useful than alternative descriptions.

As an example, we pointed to wording that links liabilities to a probability-weighted value of all possible scenarios. Not only is it difficult to always take into account all scenarios; many good valuation methodologies don't explicitly use a probability weighting of each option. As a solution, we urged the NAIC to recommend that the IASB focus on setting the valuation measurement attribute (e.g., current exit or entry value) and let professional actuarial groups create the detailed guidance on how to determine the value. This position is consistent with one that the Academy's Financial Reporting Com-



mittee adopted earlier this year with FASB when discussing how valuation guidance should be set.

We were also concerned about strictures on measuring future cash flows for life insurance contracts. The discussion paper suggests limiting the use of future premiums in valuing life reserves to those premiums necessary to preserve the policyholder's insurability. In this case, premiums higher than the minimum couldn't be considered in valuing future liabilities for universal life contracts. Since product pricing usually assumes that higher premiums will be paid, this would produce artificial losses at the time of issue. Furthermore, only policyholder dividends that are legal or constructive obligations would be considered as a liability. Many U.S. policyholder dividends may not meet those requirements since the board of directors has complete discretion over whether to pay dividends and the amount that is paid. Since the IASB is currently debating (in a separate project) what the definition of a constructive obligation should be, this restriction could lead to significant gains at issue on participating contracts and further confuse the accounting for the non-guaranteed elements of uni-

versal life contracts.

Because setting a proper liability is a very subjective process, determining the proper risk margin for liabilities was another area of Academy concern. The possibility of gains at issue also generated considerable discussion. The NAIC working group suggested that gains at issue were acceptable if an appropriate risk margin was included in the reserve. We recommended a more stringent requirement, suggesting that reserve margins be calibrated to generate no gain at issue unless it could be demonstrated that such a gain is particularly justifiable. (Our expectation is that those situations would be limited.)

At the end of my presentation, I emphasized our preference that the FASB work jointly with the IASB on its insurance project. While the Academy feels that GAAP (generally accepted accounting principles) accounting for non-life liabilities is acceptable, we would rather have a consistent basis for measuring all life liabilities.

**Henry Siegel is chairperson of the Academy's Financial Reporting Committee and of its International Financial Reporting Standards Task Force and vice president, office of the chief actuary, for New York Life Insurance Co. in New York.**

# 2007 Property/Casualty Loss Reserve Law Manual

You can now order the 2007 edition of the Academy's Property/Casualty Loss Reserve Law Manual, a reference tool designed to help appointed actuaries comply with the National Association of Insurance Commissioners (NAIC) annual statement requirements for a statement of actuarial opinion.\*

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