The Academy has been asked to provide actuarial analysis to Congress on a wide range of health policy issues as a result of a series of Capitol Hill meetings. On January 14, members of the Academy Health Practice Council met with the staff of key members of Congress and committees with jurisdiction for health policy.

The Academy representatives were led by HealthVice President Bill Bluhm, who initiated the information-gathering day to help plan Health Practice Council activities for 1998. "It is very useful to discuss issues directly with the individuals who use actuarial analysis as they work on behalf of Congress," said Bluhm. "Our group found a great hunger for the kind of independent information that the Academy offers."

According to Academy Health Policy Analyst Alson Koca, four major issues emerged as the focus of congressional interest:

- **Medicaid**: Staffers were eager to learn more about the cost implications of the administration proposal to extend Medicare benefits to individuals as young as age 55. President Clinton has stated that his "buy-in" plan would be self-financing, with new beneficiaries under age 65 footing the bill for their coverage through premiums and surcharges. Details of the proposal have not yet been made available. The Academy has agreed to provide technical analysis of the plan's financing for the administration and congressional leadership. (See story at right.)

- **Insurance**: Congress wants managed care organizations to be winning bipartisan support. Chief among the proposals is the Patient Access to Responsible Care Act (PARCA), sponsored by Rep. Charlie Norwood (R-Ga.), and the administration Patient's Bill of Rights, which are designed to protect the public from perceived abuses by managed care providers. The proposed law includes provisions on access to care, mandated benefits, quality of care, and changes in malpractice regulations. A working group of the Academy Federal Health Committee, under the leadership of Al Bingham, is being formed to study these proposals. One area of focus is expected to be the experience of states that have mandated benefits and later have seen increases in premium costs.

- **Mental Health Parity**: Last year's mental health parity legislation exempted employers that experience more than a one percent increase in health care costs. Interim regulations to implement the law are due to take effect in April, and congressional staffers asked for Academy comment on the actuarial methodology used in certifying the cost increases. A work group led by Jill Stockard will comment on this issue.

- **Medicare Expansion**: In a follow-up to the White House meeting, Bluhm reiterated the Academy's offer of assistance in letters to House Speaker Newt Gingrich, Senate Majority Leader Trent Lott, House Minority Leader Richard Gephardt, and Senate Minority Leader Tom Daschle. "When the details of the proposal are made available," Bluhm wrote, "we will analyze them as thoroughly as possible. We will be happy to discuss the results of our analysis with all interested parties and stand ready to assist in the development of technically sound policies."

The actuaries were unanimous in their doubt that the Clinton Medicare plan could be self-financing at the proposed premium rate. Actuarial skepticism is based on adverse selection, which Bluhm described for the Times as "the annoying tendency people have to do what's best for themselves."

Myers, described by Pear as "widely respected by actuaries and members of Congress," told the reporter that relatively few people would find advantage of the expanded coverage. "The ones who take it would be the high-cost ones," he said. Thus, adverse selection would make it "almost impossible to establish an adequate premium rate that would involve no additional cost to the Medicare system or to the government."

Increasing premiums would not solve the problem, Phillips said, because higher rates drive healthier people from the system. "The people who stay are those who know or expect that they will be using the benefits."

Adverse selection also would prevent Medicare from recovering losses through a $10 to $20 surcharge. King told the Times that the post-65 surcharge would not offset the additional costs of new enrollees, whose mortality rates would be higher than average and who would not survive long enough to reimburse Medicare for their pre-65 medical costs.

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In addition to the Medicare expansion proposal, the program's long-term solvent remains a key issue. The president and Congress have created a bipartisan commission to examine changes to restore long-term Medicare solvency, with Democratic Sen. John Breaux of Louisiana and California Republican Rep. Bill Thomas as commission leaders. Over the next few months, the Academy will work to ensure that the actuarial profession's voice is heard with respect to long-term alternatives for Medicare. The commission's report to Congress is expected in 1999.
Academy Releases Two Law Manuals

The Academy has released its 1997 citation of the Life and Health Education Law Manual, and the Property Casualty Loss Reserve Law Manual. Each of these manuals is $100 for members of the Academy and the Society of Actuaries. This includes postage and handling. For more information about the manuals, please call the Academy at 202-223-8916.

NAIC Asks Academy RBC Help

At its December meeting in Seattle, the National Association of Insurance Commissioners (NAIC) requested Academy assistance on a number of issues that relate to health risk-based capital (RBC). Burt Jay, chairperson of the Academy Health RBC Task Force, reports that the NAIC requests include:

- *Additional support on the new RBC managed-care formula adopted in December by the NAIC RBC Task Force. The formula will apply to HMOs, provider-owned corporations, Blue Cross/Blue Shield organizations, and other entities that assume insurance risk.

- *An advisory role in the development of an adjusted life RBC formula. Requirements for coverage of critical medical and dental coverage are lower under the new managed-care formula than under the life formula. The NAIC will be studying possible formula changes to continue to be subject to existing NAIC requirements, although HMO subsidiaries of life companies will be affected. Final NAIC approval is expected in time for 1998 managed-care annual statement filings.

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Academy Asks PSG Solvency

HMOs are also required to obtain a credit have been allowed for HMOs until a break-even point is reached. Losses predicted by the business plan would be significantly affected by the rule, acting on behalf of employers and others, actuaries have played a significant role in developing solvency proposals. Bill Weller, senior actuary for the Health Insurance Association of America, serves on the rulemaking committee and has been very active in crafting proposals for consideration. Other committee members have also turned to actuarial professionals for assistance on proposals on such issues as determining the financial effect of changing concepts such as "sweat equity." Consulting actuaries Bill Wrench, JC Lytle, and Bob Gold have given presentations on the actuarial basis of committee member proposals.

Although it is too early to predict the outcome of the rulemaking activity, the Academy is prepared to answer requests for analysis as solvency proposals proceed through the committee process. Together with a group of Academy solvency experts, Novak is planning to comment on the final product of the rulemaking process. For specific information on PSG solvency proposals, see the HCFA Web site. www.hcfa.gov/medicare.

Solvency provisions under discussion would contain two elements: initial capital requirements needed for licensing and ongoing capital requirements, intended to protect the public from bankruptcy. The rulemaking committee is thoroughly debating each aspect of PSG solvency, including capital requirements, investment of capital, amounts of losses until break-even point for startup organizations, as well as the valuation and admissibility of assets that could be used to meet requirements.

Committee members, representing interested parties that may be significantly affected by the rule, have presented a number of solvency proposals. According to Donna Novak, a member of the Academy Health Practice Council (HCFA) to form a rulemaking committee to develop solvency requirements for these new risk-bearing entities. Under the provisions of the act, HCFA consulted with the Academy before forming the committee last fall. The rulemaking committee itself requested a background briefing on actuarial issues, which was conducted in October by Academy Practice Council (HCPA) member Peter Perkins. (See November Update.) Most recently the committee reviewed alternative structures for solvency requirements, including a risk-based HMO Model Act or the Academy-developed risk-based formula of the National Association of Insurance Companies (NAIC). The Academy will be studying possible formula changes to continue to be subject to existing NAIC requirements, although HMO subsidiaries of life companies will be affected. Final NAIC approval is expected in time for 1998 managed-care annual statement filings.

from a Guest President

Karen Jordan

Two Voices for Pension Actuaries

he fact that the American Society of Pension Actuaries (ASPA) is a professional organization of actuaries and nonactuaries has been highlighted this year by my election as ASPA's first nonactuary president. I expected to encounter controversy in my capacity as president of ASPA, but did not expect controversy over ASPA's proactive governmental affairs activities.

What I have discovered is that some actuaries do not believe that it is professional for an actuarial organization to be so actively involved in governmental affairs and that it is certainly not appropriate for ASPA to try to influence pension legislation. I would like therefore take this opportunity to explain the "why" and the "how" of ASPA's governmental affairs activities in order to invite dialogue with those who feel this is inappropriate for an actuarial organization. ASPA's mission is to educate pension actuaries, consultants, administrators, and other benefits professionals and to protect the private pension system. The leadership of ASPA is convinced that being proactive in governmental affairs is essential to meeting the second part of our mission.

A few years ago, the leaders of the ASPA government affairs committee recognized that the United States sorely lacked a cohesive national retirement income policy and that consequently, pension legislation was a hodgepodge of unrelated rules. ASPA decided to take a much more proactive approach to pension legislation and regulation; and to seek the establishment of a national retirement income policy.

To accomplish these goals, the government affairs committee was expanded enabling it to address a broader range of issues. With the support of a wide network of pension professionals, ASPA has been very successful in its governmental efforts. I should add that many of our successes have been possible because of the assistance of the Academy's Pension Practice Council and the Academy's Senior Pension Fellow, Ron Gebhardt. Some of our most notable recent accomplishments are as follows:

- Assisted the IRS in developing a number of self-correction and voluntary compliance programs for pension plans.
- Developed pension reform proposals, including elimination of the family aggregation rules and simplification of rules for tests and limits, which were included in the Small Business Job Protection Act of 1996.
- ASPA proposed a simplified defined benefit plan for small employers that was introduced in Congress as the Secure Assets for Employees Plan (SAFE) Act of 1997. HR 1656 by Reps. Earl Pomeroy (D-N.D), and Bob Golden. Some of our most notable recent accomplishments are as follows:

The Academy is a commitment that we feel is vital to providing retirement security to a broad range of workers and professionals; and to protect the private pension system. The leadership of ASPA is convinced that being proactive in governmental affairs is essential to meeting the second part of our mission.
Same Words, Different Meaning at Academy Opinion Symposium

Casualty actuaries and regulators continued their dialogue on improved financial reporting at a September symposium sponsored by the Academy in conjunction with the National Association of Insurance Commissioners (NAIC). The symposium offered a detailed look at perceived trouble spots in statements of actuarial opinion (SAOs) for property/casualty insurers. This was the second such symposium on this topic; the first was held in 1995.

Regulatory actuaries from ten states participated in the symposium, as well as an NAIC representative and two examiners. Ten industry actuaries also served on the panel. The symposium was moderated by Academy member Anne Kelly, chief actuary of the New York Insurance Department.

The symposium was intended as an informal means for readers and signers of SAOs to communicate on issues related to the opinion. Members of the Academy Committee on Property/Liability Financial Reporting and NAIC Casualty Actuarial Task Force, with assistance from the New York Insurance Department, put together a presentation based on the NAIC SAO Instructions. On the basis of the lively discussion summarized below, it is clear that opinion language is interpreted by everyone in a somewhat different way.

Changes in Appointed Actuary

This requirement may alert insurance departments of disagreement between the actuary and the company concerning the condition of the company's reserves. When an actuary is replaced, the former actuary may inform the insurance department of the reasons. Some opinion language is deliberately written to allow freedom of interpretation by everyone in this same way.

Schedule P

Schedule P reconciliations should not be an issue of contention. The instructions state that an actuary should reconcile the data or at least review a reconciliation, provided that the data do not reconcile. If the opinion does not clearly state that this was not done, there is reason for further inquiry by regulators.

A Schedule P disclosure is seldom filed by insurance companies and is guarded towards Schedule P as a loss reserve database. Actuarial analysis often does not use Schedule P data. Although it is an accounting function, the assumption of risk transfer in reinsurance contracts sometimes involves actuarial analysis. Should it be within the scope of the opinion? Most regulators feel that relying on discussions with management is insufficient.

 Poor Actuarial Work Product

When faced with what they believe to be a poor work product, regulators may submit a hypothetical case to the Actuarial Board for Counseling and Discipline (ABCD) for comment without disclosing any specifics. The resulting opinion from the ABCD can be shown to the offending actuary in an attempt to correct the practice. It is generally agreed that the regulator should contact the actuary of the company in cases of questionable opinion language.

One regulator stated that his department informs companies that it will no longer accept the work of an actuary who has submitted a poor work product. It is generally agreed that the regulator should contact the actuary of the company in any case of questionable language in the opinion.

Actuarial Opinion—Actuarial Report

Some actuaries suggested that the opinion should be shorter and that detailed disclosures and potential concerns be contained in the actuarial report. The purpose of the opinion is to alert the regulator of potential problems; the actuarial report may be consulted if there are red flags in the opinion. It was generally agreed that the preprinted actuarial standard of practice on the issue would have a positive impact on the quality of the actuarial opinion and may make regulators less inclined to increase the number of issues to be addressed.

Materiality

There seems to be a consensus among signers on the need for standard of materiality for the opinion. The scope of the actuary’s work ends with the reserves, yet many would use materiality as a guide for issues of materiality. Is this a de facto widening of the scope of the actuary’s opinion?

—RINZNER IS AN ACADEMY POLICY ANALYST.

President Allan Kaufman (left) accepts a gift on behalf of the Academy from Deng Hongvoo, a senior official of the State Council of the People’s Republic of China. A delegation of Chinese regulatory officials led by Deng visited the Academy office on December 16 to discuss the role of the actuary in insurance. Delegation members reported on the fast-growing Chinese insurance market and sought information about the professional responsibilities of the actuary and the profession’s contribution to maintaining insurer solvency. At center is Executive Director Wilson Wyatt.

Academy Staff

Trout Is New Academy Policy Chief

John H. Trout, a veteran of three decades’ experience in Washington policy work, has been appointed director of public policy for the Academy. Trout took up his duties in early December.

"In my government career, I came to understand and appreciate the critical role of the actuarial profession," said Trout. At one point in his service at SSA, Trout reported directly to then-SSA Deputy Commissioner Robert J. Myers. "Working for Bob helped me appreciate actuaries’ high professional standards," Trout said. "He truly taught me the meaning of the word ‘accuracy.’"

"John’s extensive experience in policy analysis, especially on federal social insurance programs, will be a great benefit to the Academy and the actuarial profession. He has already demonstrated his value by helping craft our response to proposals to expand Medicare. " (See page one.)

Trout is a Phi Beta Kappa graduate of Duke University and has done graduate work in public administration at the University of Southern California. He is a charter member of the National Academy of Social Insurance and recipient of a Health and Human Services Distinguished Service Award.

Trout was selected by a blue-ribbon search committee whose members were Academy President Alan Kaufman, President-elect Dick Robertson, Past President Larry Zimpleman, Vice Presidents Mike Tothman and Bob Wilcox, and Executive Director Wilson Wyatt.
Under Construction: Five-Year Academy Plan

I n 1993, an Academy task force prepared the Academy's first five-year plan, which has given the organization very useful direction. New challenges have emerged since that plan was developed. Certain priorities have changed. Accordingly, a high-level task force has begun work to develop a new strategic plan and establish a yearly planning process for the Academy. In my role as president-elect, I am serving as chair of that task force.

Task force members represent a broad spectrum of actuarial practice. Serving on the group are Robert A. Anker, former president of the Casualty Actuarial Society (CAS); Morris W. Chambers, former president of the Canadian Institute of Actuaries; Robert L. Collet, president and CEO of Milliman & Robertson; Edwin Hustead, senior vice president of Hay/Ilgagigna and a member of the Academy Board of Directors; Ethar Kra, managing director and chief actuary of William M. Mercer, Inc.; Stephen P. Lowe, chief actuary of Tillinghast/Towers Perrin; Peter Perkins, senior vice president and chief actuary of Trigon Blue Cross/Blue Shield and a member of the Academy Board; and Jack Turnquist, 1996 Academy president and former chairperson of the Actuarial Standards Board. Academy Executive Director Wilson Wyatt also serves, as do the executive director of the Society of Actuaries (SOA), John O'Connor, and CAS Executive Director Tim Tinsley.

It is instructive to compare the strategic needs of the Academy with those of the other actuarial organization that I am most familiar with, the SOA. (Presumably the strategic needs of the CAS are comparable.) A significant part of the SOA's functions are operational in nature: administering examinations, conducting meetings and seminars, developing educational material, maintaining member records. Of course, there are important strategic aspects to these and other SOA activities. Yet it remains that the bulk of the strategic work is done at the committee level.

The primary functions of the Academy provide a distinct contrast: government relations, communications, and professionalism. Were it not for these constraints, an almost unlimited amount of effort could be put into any of these activities. And, to a significant extent, the value created is long-term in nature.

Therefore, it is necessary that a mechanism exist for allocating our limited resources. In making that allocation, we must consider the long-term implications as well as immediate needs. This allocation and prioritization is the essence of the strategic planning process.

It is customary in a planning process to develop a mission statement and a vision; our process is no exception. The vision statement is less important as a document than as an efficient tool. The vision statement helps us understand what needs to be done to make the organization what we would like it to be.

The vision statement helped with the next step, which was developing a list of issues that the profession is facing and an additional list of issues specific to the Academy. Based on those lists, a series of proposed strategic directions has been drafted.

The next step is to test and evaluate this draft statement of issues and directions through a series of interviews by task force members. Those interviewed will include members of the Academy Board of Directors, other members of the Academy, and selected regulators.

It is intended that a completed strategic plan will be presented to the Board of Directors at its June meeting. After approval by the Board, it will be distributed to all Academy members.

Praise for Valuation Report

Recently I read with interest the December 5, 1997 interim Academy report on a unified valuation system. (See January Update.) This report went to the Life and Health Actuarial Task Force of the National Association of Insurance Commissioners and was prepared by the Academy Valuation Task Force chaired by Robert C. Wilcox.

In my view, this excellent report is a credit to the Academy and to the many individuals who participated in its preparation. The report, together with its nine appendices, runs more than 170 pages, but is well written and well organized.

I congratulate the chairman and all his helpers as they continue to work on a final report.

Harold J. Brownlee
DURHAM, N.C.