JUNE 2009

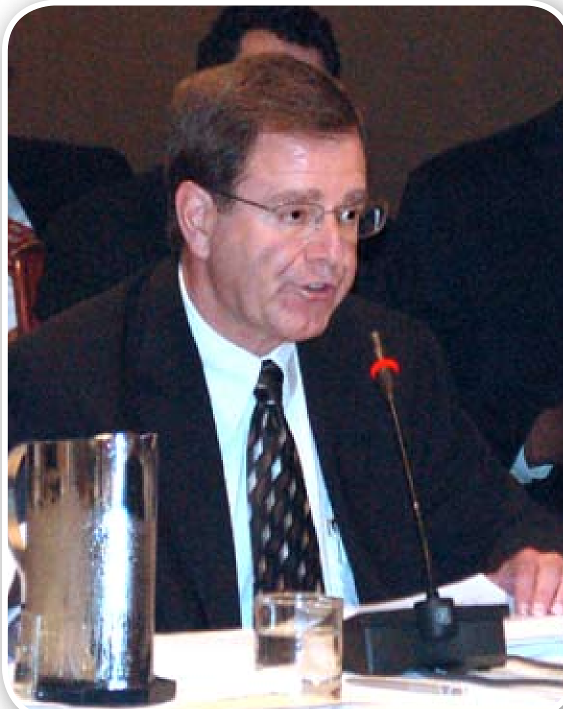
Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Academy Defends Value of Credit-Based Insurance Scoring

THE ACADEMY'S CASUALTY PRACTICE COUNCIL affirmed the statistical reliability of using credit-based insurance scoring to segment risks during a National Association of Insurance Commissioners (NAIC) public hearing April 30 in Arlington, Va. The fact-finding hearing hosted by the NAIC's Property and Casualty Committee and Market Regulation and Consumer Affairs Committee examined the practice of using credit-based insurance scores for determining insurance premiums in property and casualty insurance lines.

Jeff Kucera, senior consultant with EMB America LLC in Chicago and member of the Casualty Practice Council, represented the Academy in the second of four panels called by the NAIC throughout the day. In his testimony, Kucera, who also chairs the Academy's Property and All Other Lines Subcommittee, explained how credit-based insurance scores are created and how they are used by insurers.

Kucera affirmed the effectiveness of using certain attributes found in a typical individual's credit report in calculating an insurance score designed to measure the individual's expected costs to the insurance company. In his full written testimony submitted prior to the hearing, he cited credit attributes such as the number of inquiries into opening new accounts and accounts that are 30 days or more overdue as examples that can have the greatest effect on an individual's insurance score. These are among the 15 to 20 elements used for insurance purposes of the 70 to 80 involved in calculating credit scores.



Academy member Jeff Kucera testifies at an NAIC hearing on insurance credit scoring.

SEE **INSURANCE SCORING**, PAGE 8

Defining Criteria for Medicare Reform

Academy Statement Sets Focus on Pressing Decisions

WITH THE NATIONAL MEDIA SPOTLIGHT FIXED on policymakers' discussions of comprehensive health care reform, it may be easy to overlook the 800-pound gorilla lurking in the shadows. The Medicare Board of Trustees, however, reminded everyone in its annual report released in May that the clock is ticking on the nation's largest health insurance program's serious financial problems. The Academy's Health Practice Council and Medicare Steering Committee sought to push those problems to the forefront of policy discussions by issuing a call to action, urging policymakers to undertake comprehensive and timely Medicare reform.

In its public statement, the Academy council outlined four criteria that any comprehensive reform must seek to achieve in order to ensure the financial viability of the program. The first two address the solvency of the program's Hospital Insurance (HI) trust fund, which covers inpatient hospital services and is funded by dedicated payroll taxes. The statement called for any solution to meet the solvency standards, as defined by the trustees. These include ensuring projected HI trust fund assets for each of the next 10 years must be large enough to cover projected expenditures and projected HI revenues for each of the next 75 years must exceed projected expenditures.

Achieving solvency is only half of the battle, though, as rising health care costs threaten the long-term sustainability of Medicare. Consequently, the council asserted that

SEE **MEDICARE REFORM**, PAGE 6

JUNE

13-16 NAIC summer meeting, Minneapolis

16-17 ASB Meeting, Washington

25-26 CIA annual meeting, Halifax, Nova Scotia, Canada

JULY

8 Audiocast on the ABCD and the disciplinary process (Academy, CCA)

9-12 NCOIL summer meeting, Philadelphia

23 Council of U.S. Presidents meeting, Charlottetown, Prince Edward Island, Canada

23-25 NAAC meeting, Charlottetown, Prince Edward Island, Canada

AUGUST

5 Academy Executive Committee meeting, Minneapolis

SEPTEMBER

14-15 Casualty Loss Reserve Seminar (Academy, CAS, CCA), Chicago

21-22 ASB Meeting, Washington

21-24 NAIC fall meeting, Washington

23 Seminar on principle-based capital (Academy, SOA), Anaheim, Calif.

OCTOBER

15 Council of U.S. Presidents meeting, Colorado Springs, Colo.

15-17 NAAC meeting, Colorado Springs, Colo.

20 Academy Board of Directors meeting, Denver

25-29 SOA annual meeting, Boston

26 Academy annual meeting, Boston

NOVEMBER

1-4 ASPPA annual conference, National Harbor, Md.

1-4 CCA annual meeting, Tucson, Ariz.

9-12 Life and Health Qualifications Seminar (Academy, SOA), Arlington, Va.

12-15 IAA meeting, Hyderabad, India

15-18 CAS annual meeting, Boston

19-23 NCOIL annual meeting, New Orleans

DECEMBER

2-3 ASB Meeting, Washington

5-8 NAIC winter meeting, San Francisco

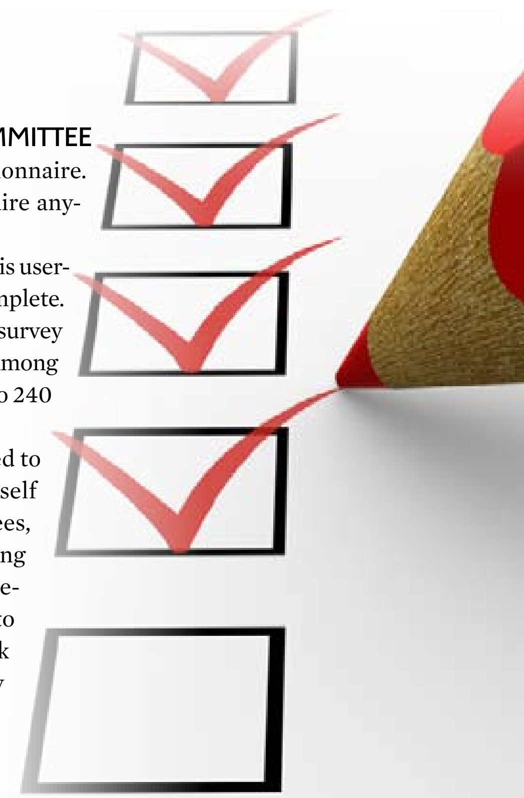
8 Academy Executive Committee meeting, Washington

9 Qualification Standards audiocast (Academy, CCA)

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

Academy NEWS Briefs

A Call for Volunteers



THE ACADEMY'S VOLUNTEER RESOURCE COMMITTEE recently kicked off its 2009 online volunteer questionnaire. Members can access and complete the questionnaire anytime between now and July 8.

Similar to last year's setup, the web-based questionnaire is user-friendly and should take no more than five minutes to complete. You can access the form from your member log-in page. The survey is part of the Academy's efforts to encourage volunteerism among its members. Last year's volunteer recruitment efforts led to 240 placements of Academy members on various committees.

At the beginning of the questionnaire, you will be asked to provide updates to your contact information. The form itself contains a space to indicate volunteer groups (committees, task forces, etc.) on which you may be interested in serving and another space to describe your particular areas of experience and expertise that the Academy can help match to a particular group. A list of Academy committees and task forces and a short description of each group's primary activities are immediately accessible on the web-based questionnaire. You can also indicate if you have an interest in writing articles for Academy publications.

➜ CONTINUED FROM **PAGE 2**

LATE FEE ADDED

If you still haven't paid your 2009 Academy dues, don't be surprised to find a 20 percent late fee on your dues notice. The late fee kicked in May 1. Please note that failure to pay your annual membership dues will result in you being dropped as a member of the Academy and your inability to use the M.A.A.A. designation thereafter.

To be eligible for a partial dues waiver, you must be (a) unemployed or temporarily away from the workforce and expect to earn less than $30,000 from actuarial activities this year or (b) less than 70 years old, retired, and expect to earn less than $30,000 this year. To be eligible for a full dues waiver, you must be (a) 70 or older, (b) totally disabled and anticipate remaining so throughout 2009, or (c) serving on active duty in the U.S. military, the Peace Corps, or a similar volunteer service. Forms for full and partial waivers are available online.

ASB APPOINTMENT

Thomas Levy, senior vice president and chief actuary with the Segal Co. in Toronto, has been appointed to the Actuarial Standards Board, filling the vacancy left by the untimely death of David Kass. Levy was appointed by the Council of U.S. Presidents to take over the remainder of Kass's three-year term through the end of 2009. Levy will then begin his own three-year term starting in 2010. Kass, a charter member of the Academy, died May 21 at the age of 77.

BOARD RECAP

At its May 21 meeting, the Academy Board of Directors approved an amendment to the Committee Appointment Rules to allow other U.S.-based actuarial organizations to request that their liaisons on Academy committees who reach their tenure limit be exempted from committee tenure requirements. Those requests will be automatically granted. An exempt liaison will not count toward a committee's average tenure. For a summary of other actions taken at the meeting, visit the member log-in page.

KUDOS

Working Mothers magazine has named Shantelle Thomas, a senior actuary with Allstate Insurance in Northbrook, Ill., one of its Working Mothers of the Year. The magazine gave the award to 30 mothers as part of its 30th-anniversary celebration. Among those with whom she shared the honor was first lady Michelle Obama.

IN THE NEWS

Academy Senior Pension Fellow Frank Todisco, who analyzed the Pension Benefit Guaranty Corp.'s (PBGC) financial footing in the spring *Enrolled Actuaries Report*, commented for several news outlets on automaker pension plans and what bankruptcy could mean for the retirees and the PBGC. Todisco explained that in the event of a plan takeover, some retirees could see their benefits reduced because the PBGC guarantees a maximum amount of $54,000 per year to retirees 65 or older.

Todisco's comments appeared in an April 8 Bloomberg article that was republished online and in newspapers nationwide, including the *Akron Beacon Journal* on April 11, the *Pittsburgh Tribune-Review* and *Buffalo News* on April 12, and the *Omaha World-Herald* on April 20. His remarks were echoed in a separate report in the *Detroit Free Press* on April 16.

Todisco appeared via satellite with CNBC reporter Bertha Coombs to discuss the current condition of state and local pension plans and to explain options to improve funding levels. Todisco said that most of these pension plans' obligations are due over decades into the future and that the ultimate cost will depend on how well the economy recovers. He also said the plans have the flexibility to gauge the markets and match contribution increases with improved economic conditions. Parts of the interview were aired throughout the day on April 8 during CNBC's "Closing Bell," "Power Lunch" and "CNBC Reports."

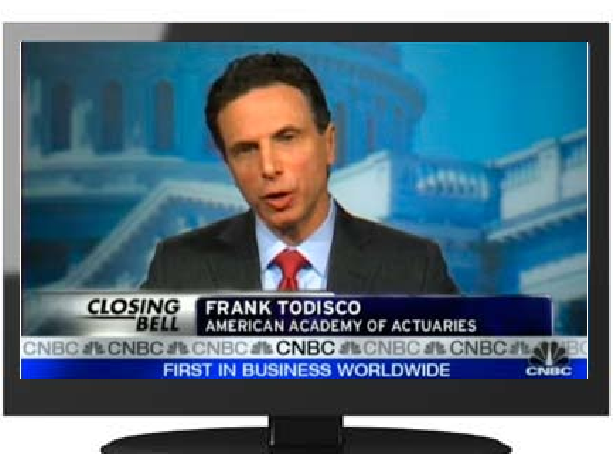
On April 10, "The Insurance Bellwether," a new blog dedicated to the latest insurance, income planning, and financial planning developments, discussed the Academy's Life Practice Council webcast on principle-based approach project updates from the National Association of Insurance Commissioners (NAIC) spring meeting. Donna Claire, chairperson of the Academy's Risk Management and Financial Soundness Committee and president of Claire Thinking in Fort Salonga, N.Y., and Tom Campbell, vice president of the Academy's Life Practice Council and vice president and corporate actuary with Hartford Life in Simsbury, Conn., told participants that the principle-based approach project was making progress and moving forward. Other Academy members cited include Larry Bruning, chief actuary of the Kansas Insurance Department and chairperson of the NAIC's Life and Health Actuarial Task Force, and Philip Barlow, associate commissioner of the District of Columbia Department of Insurance and Securities Regulation and chairperson of the NAIC's Life Risk-Based Capital Working Group.

To find out about other actuaries in the news or for external links, visit the Academy's newsroom at http://actuary.org/newsroom/news.asp.

> **Correction** The April issue of the *Update* incorrectly stated that Nancy Bennett helped open Aon Consulting's Midwest office in 1999. Bennett helped start the Midwest office for Avon Consulting Group in 1999 while working in Minnesota. In 2001, Avon Consulting Group was sold to the Chicago-based Aon.

SPEAKERS BUREAU

Sven Sinclair, an actuary and analyst with the Congressional Budget Office in Washington and member of the Academy's Social Insurance Committee, was the featured speaker during a forum on Social Security presented by the Temple University Chapter of Gamma Iota Sigma on April 3 in Philadelphia. Gamma Iota Sigma strives to enhance the professionalism of students studying in the fields of risk management and actuarial sciences.



Preparing for the Future

U.S. Issuers Await International Standards

BY RICHARD LEMIEUX

LAST NOVEMBER, the Securities and Exchange Commission (SEC) published a proposed road map to mandatory International Financial Reporting Standards (IFRS) use for U.S. issuers. Subject to the achievement of four necessary milestones before making a final decision regarding the transition to IFRS, the road map set the target transition date as early as 2014 (including the option for early adoption by a few large issuers as early as 2009). It also provides three milestones that deal specifically with the timetable for the SEC's decisions and its implementation process.

This road map was the latest and strongest move in U.S. efforts toward convergence with international standards and came one year after the SEC issued a concept release, "Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards." At the same time, the SEC also held three roundtables with leaders from the business world, banks, audit firms, the academic world, regulatory authorities and governments.

While the Financial Accounting Standards Board and International Accounting Standards Board have collaborated in an effort to improve financial standards since as far back as 2002, a turning point in those talks occurred in early 2006 when the two organizations issued a memorandum of understanding that set forth priorities for improving accounting standards and established a joint work program outlining specific milestones to be reached by 2008. The progress of the two boards was so significant that the SEC removed the reconciliation requirement from the IFRS for non-U.S. companies in November 2007, one year earlier than initially contemplated. By that point it was clear the focus had changed from making the two sets of standards fully compatible to the creation of a single set of high-quality, common standards aimed at improving the financial information reported to investors.

What the Change Means

The move from U.S. Financial Accounting Standards to IFRS will represent a major change for financial statement preparers in the U.S. due to its principle-based standards. While some who have been employed by multinational firms have been operating under IFRS, most have worked only under U.S. generally accepted accounting principles (GAAP) or statutory accounting required for NAIC annual statements. The U.S. accounting profession and the management who have been trained to research through volumes of guidance will be required to analyze the substance of transactions under the principle-based standards of IFRS. Professional judgment will have to be exercised in reflecting the underlying economics of particular transactions or events.

A new mind-set will be forced on U.S. management, bankers, governments, legislators and the accounting profession—they will have to think through general principles and concepts, as opposed to relying on written guidance. Investors and their advisers may need to create new ways in which to compare results presented by different companies that may have made different judgments about the accounting for similar events.

What It Means to Actuaries

This is a particularly difficult time for U.S. companies to consider transitioning to IFRS. The transition to IFRS from U.S. GAAP represents a large investment for all involved (training, education, etc.)—even many in the accounting profession are not prepared. Given the current economic turmoil, companies are hesitant to take a leadership role. Thus, many companies appear to be taking a wait-and-see approach, unless they are already committed to IFRS on an international basis.

However, there is wide agreement that it makes sense to have a single set of global reporting standards, which would enhance financial reporting comparability and transparency, create cost efficiencies over the long term and reduce complexity and risk of errors. And since the European Commission's requirement to use the IFRS for the consolidated financials of companies listed on a European stock exchange took effect in 2005, it provided impetus for the recognition of IFRS in many countries around the world. After Europe, Asia, and Australia, the U.S. is on its way.

This conversion from the current U.S. GAAP to IFRS presents unique consulting opportunities for actuaries. As previously noted, this conversion is more than a simple change from one set of accounting standards to another, but rather requires a whole new mind-set (a change from sifting through piles of guidance to thinking through general principles and concepts). While the next generation of leaders will have learned IFRS in school, the existing management must be trained quickly in this new principle-based approach toward accounting.

There are three types of consulting assignments that have become available to pension actuaries, for instance—as well as comparable roles in other practice areas—as their clients are considering conversion to IFRS:

- Training/teaching sessions on IFRS, which, because it is a completely new accounting approach, is foreign to the existing generations of U.S. accountants and human resources personnel;
- Audit of the company's existing employee benefit promises, including the valuation and accounting methods used in preparing the current company's financial statements;
- Valuation of and accounting for the actual employee benefits revealed by the audit, both before and after the IFRS transition.

CONTINUED ON PAGE 5 ➔

Economy, Longevity Hurt Social Security Outlook

THE RIPPLING EFFECTS OF THE ECONOMIC RECESSION CONTINUE TO TAKE THEIR TOLL on retirement security. With its release in May, the 2009 Social Security Trustees' Report confirmed what many actuaries, economists and soon-to-be retirees have long feared: The nation's social insurance program may run out of money sooner than expected. According to the report, the year that outgoing expenses are expected to exceed incoming funds crept up to 2016 from last year's estimate of 2017, while total assets in the trust fund are expected to be depleted by 2037—four years earlier than predicted by last year's report.

As explained in the Academy Social Insurance Committee's latest issue brief, *An Actuarial Perspective on the 2009 Social Security Trustees' Report*, the new numbers are reflective of both the poor short-range economy and demographic changes.

Revised economic assumptions reflect decreased projected income from payroll taxes as a result of increased unemployment. At the same time, the number of people applying for disability benefits is rising.

While the long-term financial projections of the program result from demographic changes such as the wave of baby boomers now beginning to reach normal retirement age and the gradually increasing longevity of retirees, that imbalance is exacerbated in the Social Security trustees' recent numbers. According to the issue brief, the report now predicts faster declines in death rates from heart disease and cancer for retirees aged 65 to 84.

To bring the fund's income and outgo into actuarial balance, the Social Insurance Committee's issue brief urges both Congress and the Obama administration to act soon to reform Social Security. The trustees report underscores the need for immediate reform, according to Bruce Schobel, Academy president-elect and member of the Social Insurance Committee. Schobel said that by acting now, policymakers could have a full range of options to choose from, be able to apply those options to multiple generations across a longer time span and give people more time to appropriately plan for retirement.

"Tax increases could be phased in gradually, and reductions in benefit growth could be applied across a much larger population of beneficiaries, making individual reductions relatively smaller and less precipitous," he said.

With the longevity of retirees gradually increasing, the number of people entering the workforce remains too small to counterbalance the financial strain it puts on the system. The Social Security Administration actuaries' intermediate projections show that life expectancy at age 65 will continue to increase—with males living on average 19 additional years by 2040 (compared to 11.9 more years as of 1940), and females living 21.1 more years (compared to 13.4 more years as of 1940). Accordingly, the Academy issue brief asserted that raising Social Security's retirement age must be factored into any solution, reiterating a public interest advocacy statement issued last summer by the Academy.

"You just cannot have people living longer and longer with a frozen retirement age," Schobel said. "At some point, the system cannot afford it. There are many options available to policymakers, and as actuaries, we believe that increasing the retirement age should be a part of any solution."

To read more about the issue brief on the Social Security trustees report's actuarial assumptions, visit http://www.actuary.org/socsec/.

–JESSICA THOMAS

PENSION BRIEFS

- **Patricia Pruitt**, an actuary for the United States Railroad Retirement Board in Chicago, has joined the Academy's Retirement Security Principles Task Force.

LIFE BRIEFS

- **Gabe Schiminovich**, vice president and actuary for product development for M Financial Group in Portland, Ore.; **Linda Lankowski**, assistant vice president and senior actuary for Lincoln Financial Group in Hartford, Conn.; **Scott Allen**, director and actuary for annuities for CUNA Mutual Life Insurance Co. in Madison, Wis.; and **Art Panighetti**, vice president and tax actuary for Northwestern Mutual Insurance Co. in Milwaukee, have joined the Academy's Life Products Committee.
- **Alice Fontaine**, president of Fontaine Consulting LLC in Cedar Park, Texas, has joined the Academy's Nonforfeiture Improvement Work Group.
- **David Hippen**, an actuary with the Missouri Department of Insurance in Jefferson City, Mo., has joined the Academy's Life Financial Soundness/Risk Management Committee.

International Accounting, continued from page 4

Where We're Going

The convergence to IFRS is well under way—more than 100 countries already require or permit the use of (or convergence toward) IFRS. Therefore, although IFRS adoption might be delayed in the U.S., there appears to be little doubt that it will ultimately become the single worldwide standard for financial reporting. The question no longer seems to be whether IFRS will become the U.S. GAAP, but rather how prepared the industry will be when it happens.

Editor's Note: The opinions expressed in this column are those of the author and do not necessarily represent the views of the Academy.

Richard Lemieux, director for Buck Consultants in Secaucus, N.J., is a member of the Academy and the Canadian Institute of Actuaries. A native of Canada, he has worked as a pension consultant for 15 years in Ontario and Quebec, for over a dozen years in France during the compulsory IFRS conversion for European listed companies and for over seven years in the U.S., where he is qualified as an enrolled actuary.

reform measures must include two additional criteria. The growth in general revenue contributions to Medicare, measured as a percentage of total federal revenues, must be reduced, the statement says, and the growth in Medicare spending, measured as a percentage of gross domestic product (GDP), must also be reduced.

According to the trustees' report, HI revenues will fall below spending levels for the first time this year, and the trust fund is now projected to be depleted by 2017—two years earlier than last year's projection. In addition, by 2050, Medicare's share of GDP is projected to increase from last year's 3.2 percent to almost 10 percent, and Medicare contributions could jump from one-sixth of federal revenue to one-half of it.

"Medicare proposals should focus on options that control overall spending, rather than simply shifting costs from the government to another payer," the statement says.

Any viable solution, the statement acknowledges, will involve a combination of concessions from taxpayers, Medicare beneficiaries and the health care industry. However, it stresses that each year of inaction ensures those changes "are more extreme and likely more burdensome to future generations."

"Medicare's future is threatened by large and imminent financial challenges," said Academy Senior Health Fellow Cori Uccello. "The actuarial profession urges President Obama and Congress to act now to restore Medicare's long-term solvency and sustainability."

BASED ON THE NEW DATA from the 2009 Medicare Trustees' Report, the Academy's Medicare Steering Committee updated and released its annual issue brief *Medicare's Financial Condition: Beyond Actuarial Balance*. The key findings of this year's trustees report include:

- Hospital Insurance (HI) expenditures will exceed HI income, including interest, again this year.
- The trust fund depletion date is projected to arrive in 2017, two years earlier than was projected last year. This is due to significantly lower projected payroll tax income during the current economic recession.
- At the time of projected trust fund depletion, tax revenues would be enough to cover only 81 percent of program costs.
- The value in today's dollars of the HI deficit over the next 75 years is $14 trillion. Eliminating this deficit would require an immediate 134 percent increase in payroll taxes or an immediate 53 percent reduction in benefits, or some combination of the two.
- HI income shortfall and Supplemental Medical Insurance (Part B) general revenue contributions are projected to grow dramatically from 1.4 percent of gross domestic product (GDP) in 2008 to 8.1 percent of GDP in 2080.
- In 2008, Medicare spending was 3.2 percent of GDP. Spending is expected to rise to 6.4 percent of GDP in 2030 and 11.2 percent of GDP in 2080.

–HEATHER JERBI

Actuaries, Accountants Seek Out Common Ground

The Academy's Financial Reporting Committee held its annual meeting with the American Institute of Certified Public Accountants' (AICPA) Insurance Experts Panel April 27 at the AICPA headquarters in New York.

Academy and AICPA participants discussed developments between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), as well as actuarial standards of practice (ASOPs) and Academy practice notes.

Taking part in the meeting on behalf of the Academy were members of the Financial Reporting Committee (FRC), the Risk Management and Financial Reporting Council (RMFRC), the Actuarial Standards Board (ASB), the Casualty Practice Council's Committee on Property and Liability Financial Reporting (COPLFR), the Health Practice Financial Reporting Committee (HPFRC) and the Life Financial Reporting Committee (LFRC). Each group presented on varied risk management and financial reporting topics.

The meeting began with a discussion on the IASB and FASB joint insurance contracts project. Henry Siegel, vice chairperson of the RMFRC, discussed the FASB revenue recognition project, indicating that the FRC would be submitting comments on the paper this summer. Both Siegel and Donald Doran, chairperson of the AICPA panel, agreed that the biggest question is how to identify and define the performance obligation.

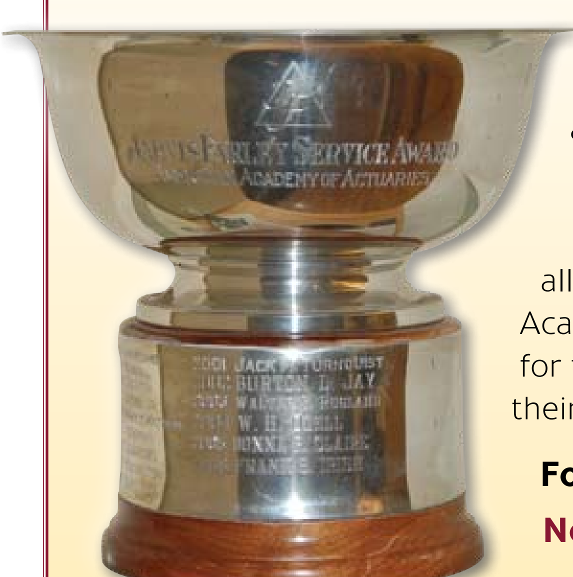
Steve Strommen, vice chairperson of the FRC, presented the committee's comments on the FASB financial statement presentation paper. He discussed the paper's objectives of disaggregation and cohesiveness. Chris Nyce, vice chairperson of the FRC, discussed the International Association of Insurance Supervisors paper on the relationship between the auditor and actuary, citing the paper's confusion in defining the role of the actuary.

Marc Oberholtzer, chairperson of COPLFR, updated the meeting attendees with the news that a practice note pertaining to the NAIC model audit rule would be issued later this year. Oberholtzer and Al Beer, vice chairperson of the ASB, also presented a report on developing an ASOP on risk transfer. Beer said an ASB drafting group will be discussing the potential contents of the ASOP and whether it will include topics not covered in an existing Academy practice note that was created in 2005 and revised in 2007. The annual meeting also included discussion on Securities Exchange Commission disclosures for property and casualty companies and changes to ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*.

Darrell Knapp, chairperson of HPFRC, mentioned the committee's practice note on accident and health active life reserves (under both statutory accounting principles and generally accepted accounting principles). The document is expected to be completed by the end of the year. Knapp suggested distributing the practice note to the AICPA panel for input when it is complete. Rowen Bell, chairperson of the FRC, gave a review of the Academy's completed practice notes, and Lenny Reback, vice chairperson of LFRC, discussed the committee's updated draft practice note on guaranteed minimum benefits, for which members of the panel agreed to provide comments.

–Tina Getachew

Jarvis Farley Service Award



The Academy is looking for nominations for the 2009 Farley Award, which is given annually to an actuary who has provided sustained exemplary volunteer service to the profession.

With the exception of current Academy officers, all Academy members are eligible for the award. Past Academy presidents are eligible for consideration only for the volunteer work they have done after completing their terms of office.

For more information, visit the Academy website.

Nomination Deadline: July 1

Insurance Scoring, continued from page 1

"There is a strong correlation between credit-based insurance scores and the expected costs associated with the risk," Kucera told the NAIC panel in Arlington. "In other words, in a group of insureds who are identical in every other way, insureds with favorable insurance scores are significantly more likely to have better loss experience than insureds with unfavorable insurance scores."

Kucera also cited Actuarial Standard of Practice (ASOP) No. 12, *Risk Classification*, to defend the use of credit information in risk pricing.

"The actuary should select risk characteristics that are related to expected outcomes," reads Section 3.2.1 of the ASOP. "A relationship between a risk characteristic and expected outcome, such as cost, is demonstrated if it can be shown that the variation in actual or reasonably anticipated experience correlates to the risk characteristic."

Kucera mentioned several studies, which he cited by name in his written testimony, that have shown credit scores to reflect significant differences in expected loss cost.

In response to concerns expressed by the NAIC over the current economic condition's effect on credit scores, Kucera stressed that one of the roles of the actuary is to regularly review all relevant data to ensure rate levels are appropriate and actuarially sound. If credit scoring were to be removed from insurance scores, he explained, it would not lower the overall premium collected but only redistribute it among different segmented risk groups so that those with lower risks will pay more and those with greater risks will pay less.

In addition, even if poor economic conditions were to lead to across-the-board declines in credit scores, Kucera said it wouldn't dictate across-the-board premium hikes because insurers use insurance scores to determine appropriate rate relationships between risk classes—not to determine overall premium need. Instead, the actuary would observe the distributional shift in scores and adjust rate levels so that the total premium is the same. Through the past six months of the current economic conditions, Kucera said, he wasn't aware of "any quantifiable evidence that has surfaced to demonstrate that a significant distributional shift has been occurring."

Other speakers who testified during the second panel were representatives from the Insurance Information Institute, the Center for Economic Justice and the Consumer Federation of America, as well as Academy member Michael Miller, who represented the American Insurance Association, Property Casualty Insurers Association of America and the National Association of Mutual Insurance Cos. in the hearing. Opponents of credit-based insurance scores argued that credit scores affect minority applicants disproportionally and said that evidence that shows a correlation between credit scores and insurance risk does not necessarily prove causation.

"If causation were a standard for the use of the specific risk factor, there would be no risk factors that could be used to predict and measure risk," responded Miller.

During a question-and-answer portion of the panel, Kucera referred to a point in his written comments citing anecdotal evidence that most insurance companies report that the use of the insurance scores, along with other new rating factors, has allowed them to write more risks from the general population (particularly in low-income areas) than were possible before the features were introduced.

Kucera also reiterated the relevance of the 2002 report, "The Use of Credit History for Personal Lines of Insurance," that the Academy Products, Pricing, and Market Committee's Risk Classification Subcommittee previously produced at the NAIC's request.

CASUALTY BRIEFS

➡ **Mark Verheyen**, vice president of CNA Insurance Co. in Chicago, has joined the Academy's Property and Casualty Risk-Based Capital Committee.

HEALTH BRIEFS

➡ **David Vnenchak**, lead actuary for the healthcare division of RGA Reinsurance Co. in Chesterfield, Mo., has joined the Academy's Stop-Loss Work Group.

Qualification Standards

Is an opinion that was considered a prescribed statement of actuarial opinion (PSAO) under the old standards now considered a statement of actuarial opinion (SAO)?

A PSAO is a type of SAO. Actuaries who issue certain PSAOs—such as those issued for the NAIC Life and A&H Annual Statement, NAIC Property and Casualty Annual Statement and NAIC Health Annual Statement—must meet the Specific Qualification Standards (Section 3 of the revised standards) in addition to the General Qualification Standard (Section 2).