THE ACTUARIAL update

AMERICAN ACADEMY OF ACTUARIES

VOLUME 22
NUMBER 2

FEBRUARY 1993

THIS MONTH

ENCLOSURES

Included with this month's issue of The Actuarial Update *are the following:*

In Search Of

ASB Boxscore

1993 Academy Yearbook

Nomination Card

Erratum to Actuarial Compliance Guideline No. 3

Committee on Life Insurance Financial Reporting Responds to FASB Changes

By James E. Hohmann

On September 8, 1992, the Financial Accounting Standards Board (FASB) issued an exposure draft that could have great impact on insurance company investments in debt securities. *Accounting for Certain Investments in Debt and Equity Securities* calls for debt security investments to be categorized as assets "held to maturity," as "trading securities," or as "securities available for sale."

According to the exposure draft, assets held to maturity would be reported in financial statements at amortized cost. Trading securities or securities available for sale would be reported at "fair value," which is defined as the "amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale." If a quoted market price is available, it would constitute the fair value.

The exposure draft requires that unrealized holding gains or losses on trading securities be included in earnings. Such gains or losses on securities available for sale would be excluded from earnings, tax affected, and reported separately in shareholders' equity.

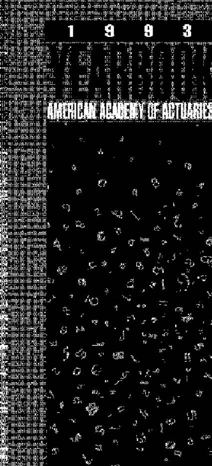
Therefore, debt instruments such as bonds or CMOs (other than the hold to maturity category) would be reported on a fair value basis. Items such as accounts receivable, mortgages and real estate would be unaffected. This represents a substantial departure from current accounting practice whereby nearly all debt instruments are reported at amortized cost. This change is required even though the exposure draft contains no provision for a similar reporting of liabilities.

If most insurer debt investments were categorized as held to maturity, the impact of the new proposal would be insignificant. However, this appears very unlikely. The intent of management provides the basis for allocating assets among categories. Specifically, if the reporting entity has the intent and ability to hold assets to maturity, they may be categorized as such. Otherwise, they would be trading securities or available for sale. According to the exposure draft:

"A debt security shall not be classified as held to maturity if it might be sold in response to changes in market interest rates, changes in the security's prepayment risk, the entity's management of its income tax position, its general liquidity needs, increases in loan demand, or similar risk factors. Thus, a debt

Continued on page 4

1993 ACADEMY YEARBOOK



In this [illegible] mailing of *The Actuarial Update*, readers will find enclosed the *1993 Academy Yearbook*. The yearbook is intended to serve as a handy office reference guide to the work of the Academy. It includes a complete listing of the Academy's leadership and staff, practice council and committee members, a brief account of the history of the Academy, its bylaws, and sections on the Actuarial Standards Board and the Actuarial Board for Counseling and Discipline. We hope you will find it useful.

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FROM THE

president

A Voice Lesson

By John H. Harding

The Academy's unique role as the public policy voice of the U.S. actuarial profession is laden with opportunity and challenge. Like any other organization we do not always seize every opportunity or meet every challenge. Our successes and our failures help shape and define the voice with which we speak: its tone, volume, and its character.

Experience has taught us that the Academy is most effective when it takes the public policy high ground by focusing on an objective analysis of issues rather than muscling into the fray with high powered lobbyists. We are not too successful in those circles, primarily because we don't have much muscle. At least not the kind that usually gets attention among the cacophony of voices that sometimes passes in Washington, D.C. for responsible political debate. Our numbers are too small to represent a base of financial or political power to politicians. Our relative size also limits our resources and, as a consequence, requires us to choose carefully the issues we seek to address proactively and the issues for which we should have a response.

So, we capitalize on our great strengths—the application of actuarial analysis and logic to social problems both large and small. Judging by the requests we've had to comment officially on regulation and legislation over the last couple of years, I'd say we're on the right course. (1990 saw 34 such requests; 1992, 51.) We may not represent a classic political power base, but better than that we're slowly building ourselves as a brain trust.

This approach can be effective for other, more practical, reasons as well. By so defining our involvement in the political process, we are able to respond to congressional requests without canvassing Academy members, which would be the proper course were we to express a political opinion on an issue (a nicety, I might add, not always observed by many professional and trade associations). All too frequently, requests from Congress to testify or prepare comments on pending legislation allow for only two weeks' preparation. Requests from the print and broadcast news media, typically allow for only a few hours or minutes of preparation. That's simply the way today's political process works. And were it not for the superb work of the Academy's committees, supported by a very able staff, these time constraints would more often than not have us forfeit our hard-earned place in the public policy arena.

Our visits to Capitol Hill cannot and indeed do not work in isolation. They are bolstered by, and their effect is multiplied by, an important element in the Academy's charge: its public relations activities. The profession's *Forecast 2000* public relations program, which had its beginnings during the centennial year of the actuarial profession in North America, has added significantly to our success with policy makers. *Forecast 2000*, funded by the six organizations representing actuaries in the US and Canada, has garnered our profession literally hundreds of mentions in daily newspapers, national news programs, and business and professional magazines. These mentions translated, in 1992 alone, to 150 million media impressions—the sum of the circulation and broadcast audience of the various news outlets reporting about the profession last year. This is good for our position as public policy influencers (politicians read and watch news reports, too) and it's good for getting the word out on actuaries and their role in society. Since its inception, the *Forecast 2000* program has been recognized with a number of prestigious awards for sustained excellence and effectiveness in getting our messages to a variety of audiences.

I write about the Academy's role as the voice of the actuarial profession because I believe it is vital to our profession's future. It is vital, moreover, that it be understood, examined, and honed by the profession it serves. The Academy will play a very real role this year in the public scrutiny of health care legislation, insurer solvency reforms, and national retirement income policy development, to name but three. We're planning congressional and press briefings as well as one-on-one sessions with regulators, legislators, and the news media, each time emphasizing what actuaries do best: expert, objective analysis of future risks and costs.

Look to the pages of *The Actuarial Update* for stories on how we are doing, both our successes *and* our failures. Let us hear from you, either directly, through Academy committee service, or in *The Update's* letters column. Let us know which issues should be high on our priority list and which ones should not be. We need your thoughts and views on this voice, your voice, to those who make public policy.

This editorial is the second of three by Academy President Harding that will appear in these pages.

The Update welcomes letters from its readers. Letters for publication should be submitted to the "Letters to the Editor" section, and must include the writer's name, address, and telephone number. Letters may be edited for style and space requirements.

notes
& COMMENT

TWA Pact Will Erode PBGC Solvency

By David Langer

Actuaries should be concerned about the December 6, 1992 "agreement in principle" between Trans World Airlines (TWA) and the Pension Benefit Guaranty Corporation (PBGC), since it may well result in a sizable and inappropriate use of the PBGC's assets. The agreement appears to fall far short of the goal set by PBGC Executive Director James Lockhart, who had said he would hold TWA chairman Carl Icahn personally responsible for payment of the over $1 billion in unfunded liabilities in TWA's two pension plans. Based on the PBGC's announcement of December 7, it appears that the combined payments by Icahn and TWA will not exceed a present value of about $400 million and could even fall below this amount.

In the event the plans are terminated, the PBGC's liability may prove to be substantially higher than previously estimated. If future PBGC settlements are structured in the way the TWA-PBGC pact appears to be, it will not take long for the PBGC's assets to become exhausted. If that happens, the defined benefit plan sponsors who sustain the PBGC may find their premiums raised more than they would like, and the current high rate of termination of defined benefit plans could continue. It would be ironic indeed if Lockhart, who has been issuing dire warnings that the PBGC faces an S & L type of debacle, were to be responsible for the impairment of the corporation's solvency.

It is important to observe that powerful political figures who pressed for the settlement, such as Sens. Robert Dole (R-Kans.), John Danforth (R-Mo.), Christopher Bond (R-Mo.), and Rep. Richard Gephardt (D-Mo.), represent states where TWA has large installations. Sen. Bond also called on the Secretaries of Labor, Treasury, Commerce, and Transportation for assistance. The key players arrayed against Lockhart in the negotiations, besides Icahn, included unsecured creditors of TWA, and unions representing 40,000 employees and retirees, all of whom clearly would not be averse to the use of the PBGC's assets as a solution to their financial problems.

A thorough evaluation of the TWA-PBGC pact is of paramount importance at this time to enable the public to assess its fairness from the point of view of the PBGC, which is mandated to protect the pension interests of all defined benefit plan participants and the employers who pay premiums. My office estimates that the increase in the PBGC's unfunded liability due to the settlement, if the plans were to terminate, could be between $500 million and $1.2 billion, about 15% of the PBGC's assets. The question arises whether Lockhart and the PBGC Board of Directors exceeded their authority under ERISA by entering into an unnecessarily costly agreement, perhaps placing the PBGC in financial jeopardy. If that is the case, then the pact should obviously be revoked. Lockhart should make available to the public the details of the provisions of the agree-

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letters
TO THE EDITOR

"User Friendly" Standards of Practice

In his editorial in the November *Update*, Actuarial Standards Board (ASB) Chairman Jack Turnquist calls for greater participation in the standards process. As a new CAS fellow, I would like to suggest that the standards of practice promulgated by the ASB, compliance guidelines, and other documents on professionalism and standards be made more "approachable" for folks like me. Perhaps it's a result of having insufficient professional experience, but I find it difficult to think of situations where the standards of practice really affect my daily life. I also find the format of the documents unappealing, requiring a fair amount of effort and time to wade through and digest.

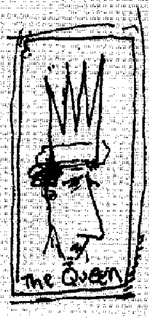
Perhaps providing real-life examples of how standards of practice come into play for company actuaries or consultants would help make standards seem more practical. The standards on ratemaking, reserving, valuation, etc. are still fresh enough in my mind from exam preparation that I recall them being imposing lists to memorize and nowhere near as interesting as the technical papers.

I suggest that study notes be developed to supplement the standards of practice. These might lend some spark to these otherwise cold lists of things to remember. Maybe this would get the student community to look at the standards with a higher level of interest during their first few formative contacts with them.

One final comment. Out of curiosity, I took an informal survey at the recent CAS annual meeting. Granted, my construction of the survey question probably skews the results, but the answers I got to the question, "How many of the standards of practice that come out do you really read anyway?" were quite interesting. No one I talked to reads them all; most people I talked to had skimmed half of them and had read only a quarter of them in any depth. Is it any wonder that the response rate to exposure drafts is so low and that the profession's leadership feels a need to continually remind the membership to participate in the process of crafting these standards?

William T. Mech
Visalia, California

COLLOQUIUM IN CAMBRIDGE



The 23d ASTIN (Actuarial Studies in Non-Life Insurance) Colloquium will be held July 25—29 in Cambridge, England. If you are interested in attending, please send your name and address to: ASTIN Colloquium, c/o David Golder, Institute of Actuaries, Staple Inn Hall, High Holborn, London, WC1V 7QJ, England. Registration deadline is April 30.

FASB, *continued from page 1*

security would not be classified as held to maturity if the entity might subsequently sell it in implementing its strategy for asset-liability management."

Under these restrictions, it seems likely that the majority of insurer debt investments would not be considered as held to maturity. Furthermore, language in the exposure draft indicates that removal of an asset from the held-to-maturity category, could force other assets also to be removed from that category.

The Academy Committee on Life Insurance Financial Reporting (COLIFR), responding to FASB's invitation to comment on the draft proposal, issued a response that focused on the inconsistent treatment of assets and liabilities. Specifically, the committee asserted that asset-liability management is an integral part of life company management. Therefore, under the exposure draft definition, the majority of company assets will not be held to maturity.

Accordingly, fair values of assets would change with market interest rates, whereas liabilities would continue on book bases defined by SFAS 60 or SFAS 97. COLIFR suggested that the accounting model would cause high volatility in shareholders' equity and be misleading. For emphasis, the committee included in its report a numerical example showing that such volatility would occur under changing interest rates even when assets and liabilities are matched.

As possible alternatives to the exposure draft in its current form, COLIFR offered the following proposals to:

❑ Include liabilities in fair value reporting requirements. COLIFR submitted that actuarial methods could be applied to develop fair values for life insurance liabilities in much the same way that expert methods are applied to the appraisal of certain invested assets.

❑ Separate assets and liabilities into groups with either book or fair value reporting bases. The argument is that if not all assets and liabilities are subjected to fair value reporting, consistent treatment should apply to subsets of both.

❑ Continue current book reporting bases as supplemented by SFAS 107 (where fair values of certain assets and liabilities are financial statement disclosure items.)

❑ Allow companies the option to report certain liabilities on a fair value basis if fair value reporting is mandated for certain assets.

COLIFR concluded its comments with a technical appendix on liability valuation along with a second appendix outlining additional options it considered in forming its response. If adopted, the exposure draft would take effect for fiscal years beginning December 15, 1993.

Hohmann is a principal with Tillinghast\Towers Perrin in Chicago.

COLIFR, COPLIFR Testify Before FASB on Marking Assets

By Jeffrey Speicher

Three Academy committee members testified before the Financial Accounting Standards Board on January 7 in Norwalk, Conn. on the controversial topic of marking debt securities to market. They were Arnold Dicke, chairman of the Academy Committee on Life Insurance Financial Reporting (COLIFR), Michael McLaughlin, acting chairman of the COLIFR subcommittee on FASB matters, and Patrick Grannan, chairman of the Academy Committee on Property Liability Financial Reporting (COPLFR).

Dicke, McLaughlin, and Grannan appeared at FASB's request to detail their committees' responses to FASB Exposure Draft No. 119-A, *Accounting for Certain Investments in Debt and Equity Securities.* (See page 1.) The exposure draft requires firms to value certain assets at market, but does not allow the firm to use market value for liabilities. Both committees stated that consistency in the treatment of assets and liabilities was essential. McLaughlin, speaking for COLIFR, stated that actuaries have the necessary tools to assist in estimating a market value for life insurance liabilities, if this is required. COPLFR head Grannan stated more research into the question would be needed before applying the requirement to property/casualty firms. At the conclusion of the hearing, FASB requested that the Academy follow up on certain questions relating to the proposals, and Dicke, McLaughlin, and Grannan agreed to do so. ■

Economic Sustainability: Unto the Seventh Generation?

It's good to see actuaries acknowledged as players by the newly installed powers that be. We wonder whether and how Vice President Gore's call for incorporating ecological impact into economic formulas will be translated into policy. Do our readers have any comments on his discussion of discount rates and an "economics of sustainability"?

". . . . Thus far no one has developed replacements for other faulty economic formulas. Take, for example, the formula we currently use to measure productivity. By excluding most environmental costs and benefits from our methods of assessing the productive potential of changes in policy, we severely distort our assessments. To remedy this ecological blindness, we should work with the appropriate professional communities (e.g., accountants, actuaries, auditors, corporate counsels, statisticians, economists of all stripes, city planners, investment bankers, and so on) and encourage them to change their formulations.

"We must also change our current use of discount rates, the device by which we systematically undervalue the future consequences of our decisions. Our technologically enhanced power has dramatically changed our ability to modify the world around us in ways that have important consequences. Yet we still calculate the effects of our actions in essentially the same way we did at the beginning of the industrial revolution: we still assume that whatever we do now will have little impact on the future. If it was ever valid, that assumption is now patently dishonest, and the formulas that embody it must be changed. But again, the actual work of changing them requires a strategic plan and a systematic program.

"To accomplish the transition to a new economics of sustainability, we must begin to quantify the effects of our decisions on the future generations who will live with them. In this, we have much to learn from the Iroquois nation, which requires its tribal councils to formally consider the impact of their decisions on the seventh generation into the future, approximately 150 years later. Of course, it is sometimes genuinely difficult to project the future, but even where it is not, we have obstinately refused to even consider it. That must change—again not just in theory but in practice, with the sustainability of economic choices factored into decision-making at every level of commerce."

From Earth in the Balance
by Vice President Al Gore

'We Need the Actuaries'

"I can't tell you a timetable [on health care reform] because we haven't had a chance with our legislative people to sit down and lay out when we're going to have the pieces done, and frankly senator. . .we need the actuaries . . . so that we can answer the myriad questions . . . about the fiscal impact and controls on the proposal."

—Donna Shalala, Health and Human Services secretary-designate, on the January 14 MacNeil/Lehrer NewsHour, *responding to a question of Sen. Donald Reigle (D.-Mich.) during her confirmation hearing before the Senate Finance Committee.*

CALENDAR

Casualty Actuarial Society Seminar on Ratemaking
March 4–5

National Association of Insurance Commissioners
Spring Meeting
March 7–9

Enrolled Actuaries Meeting
March 8–10

Actuarial Board for Counseling and Discipline Meeting
March 10

Working Agreement Task Force Meeting
March 31

Council of Presidents Meeting
April 1

Society of Actuaries
Spring Meeting—Pension and Health Topics
April 14–16

Casualty Actuarial Society Seminar on Underwriting Cycles
April 19–20

Actuarial Standards Board Meeting
April 21-22

American Society of Pension Actuaries
Satellite Seminar
April 29

Society of Actuaries
Spring Meeting—Product Development
May 3–4

Academy Board of Directors Meeting
May 14

Casualty Actuarial Society Spring Meeting
May 9–12

Actuarial Board for Counseling and Discipline Meeting
June 3

Canadian Institute of Actuaries
Annual Meeting
June 9–10

Society of Actuaries
Spring Meeting—Financial Reporting
June 14–15

Actuarial Standards Board
July 20–21

Assignment Selection: Danger Ahead

By Jack M. Turnquist

Actuaries, like all professionals in our litigious society, face an increasing risk of professional liability suits. In the current legal climate, even the most spurious claims of malfeasance or professional negligence may end up in a court of law. Actuaries who stand accused in such cases can pay enormous costs, not only in financial terms but also in lost time and possibly even lost professional prestige. Actuaries must take care to reduce both their exposure to a claim of actuarial malpractice and the likelihood of an adverse result if a claim is brought.

The single most important action an actuary can take to avoid potential liability problems is to exercise care in selecting and accepting assignments. Too frequently, this is the precautionary measure most likely to be ignored. But common sense tells us that it is better to turn down an assignment than to be sorry later. Lost revenue could well be small change relative to the costs of a malpractice suit. A responsible professional is prudent to take appropriate steps to determine the acceptability of a project in advance.

Here are a few brief guidelines for evaluating the risk of litigation presented by a proposed assignment:

❑ Review the project for conflicts of interest. It is important to remember that the appearance of conflict may be as much a problem as conflict in fact. Remember that in court the motto of the Society of Actuaries is often reversed: The attorney's work is to substitute appearances for facts and impressions for demonstrations. Any past or current activities that might lead to the suspicion of a conflict of interest should be disclosed. Make certain that the assignment is not in conflict with other work of the firm.

❑ Review the background and scope of the assignment with the potential client. Discuss the project's purpose, intended use, timing, and costs. Actuaries should carefully screen projects that would involve extreme advocacy positions, fairness opinions, or acting in the capacity of a fiduciary. Clients who are obviously opinion shopping may be best avoided. Determine the adequacy of resources and time available to complete the assignment, keeping in mind that inadequate time is responsible for many of the problems that result in lawsuits. It also may be wise to ascertain the reasons other actuaries who already considered or worked on the project turned down or abandoned it.

❑ Assess the reputation of the parties involved in the project. This is a delicate matter, but extremely important. Clients with unethical business practices tend to be sued more frequently, and so do people who work for them. Such clients also may be more likely to exert pressure on actuaries to opine beyond their competence and take positions beyond reasonable advocacy.

❑ Prepare a detailed proposal or engagement letter. This procedure is important in avoiding misunderstandings with the client. Actuaries are wise to insist on securing a signed copy from the client before proceeding too far into the assignment. Such a document should address the scope and timing of the project, the responsibilities of the client, the reliances intended to be made, the limitations on the utilization of the report, the basis for fees, and any other matter of potential significance, such as confidentiality agreements and the ownership of records and documents.

❑ Request an indemnification agreement where appropriate. Such agreements are particularly needed in high-profile assignments that have a larger risk of potential litigation. Given the scatter-gun approach now commonly used in naming parties to a lawsuit, actuaries are at risk of being named or joined in costly litigation even if their work was flawless. In a typical indemnification agreement, the client agrees to hold the actuary harmless and pay reasonable costs for the actuary's defense in the event of litigation, while the actuary agrees to reimburse these costs if found by the court to have improperly performed his or her responsibilities.

❑ Consult an attorney to review all procedures relative to the acceptance of assignments. The attorney certainly should assist in the drafting or review of proposals, letters of engagement, and indemnification agreements. This might be considered preventive maintenance: You may pay the attorney now or pay later in court.

Jack M. Turnquist is consulting actuary with Totidem Verbis in Dallas.

ADDITIONAL 1992 ACADEMY PUBLIC STATEMENTS

TO: Internal Revenue Service
DATE: November 13, 1992
DRAFTERS: Committee on Health and Welfare Plans
RE: IRS Announcement 92-126
REQUEST NO.: PS-92H-12
BACKGROUND: Announcement 92-126 refers to IRC Section 419 and 419A. This letter summarizes the results of an informal survey of members of the committee and asks questions on many of the technical issues in the announcement. The questionnaire presented the prevalent uses of welfare benefit funds (VEBAs) and the effects of FAS 106 on employer decisions to fund retiree health benefits. The committee also commented on the clarification of technical issues.

TO: Academy Qualification Committee
DATE: December 10, 1992
DRAFTERS: Pension Committee
RE: FAS 106 Proposed Qualification Standard
REQUEST NO.: PS-92P-16
BACKGROUND: The Pension Committee strongly opposed adoption of the proposed qualification standard for FAS 106 work. While the Qualification Committee proposes a qualification standard that would prohibit many members from continuing their practice of many years standing, the Pension Committee noted that no specific qualification standards apply to other highly visible areas, such as public retirement system valuation and insurer cash flow testing. The comments include a section-by-section critique of the proposed standard.

Capitol Views

Rep. Dan Rostenkowski (D-Ill.) introduced H.R. 13, a tax simplification measure. The bill contains previous pension provisions plus technical corrections aimed at cleaning up minor errors in existing tax and Social Security laws. Rep. Rostenkowski hopes to solicit additional proposals for tax and pension simplification this year, and also has introduced Medicare legislation intended to expand benefits to cover preventive health services.

The PBGC's "hidden liability" problem was examined in a report by the General Accounting Office (GAO). The GAO reported that forty-four pension plans terminating between 1986 and 1988 had aggregate unfunded liabilities that were $990 million (58%) higher than the underfunded liabilities reported on their last predetermination annual filings with the IRS. Eighty percent of those "hidden liabilities" were due to the use of actuarial assumptions to value plan liabilities that differed from assumptions used by the PBGC. The remaining 20% of additional liabilities resulted from overreporting the value of assets. The GAO concluded that the PBGC is aware of the hidden liability problem and attempts to estimate its true exposure by adjusting reported plan liabilities to its own interest rate, but that it has few tools to control its exposure.

In an attempt to address the PBGC liability problem, Rep. Jake Pickle (D-Tex.) and Sen. James Jeffords (R-Vt.) have introduced H.R. 298 and S.105. The legislation would allow companies with underfunded pension plans to offer benefit improvements only if 90% of benefits are funded or collateralized. The bill also would increase the PBGC's access to information on the solvency of companies with underfunded plans. As chairman of the House Ways & Means Oversight Subcommittee, Rep. Pickle plans to hold hearings on the bill early in this session of Congress.

An Amendment to the Social Security Act, introduced by Rep. Benjamin Gilman (R-N.Y.), would eliminate the earnings test for individuals who have attained normal retirement age. The proposal also would increase the exempt amount under the earnings test for beneficiaries who have not attained normal retirement age.

A National Retirement Income Policy Commission would be established under legislation introduced by Rep. William Hughes (D-N.J.). The bill, H.R. 199, would direct the commission to study trends in retirement savings, and study existing federal incentives and programs to encourage and protect retirement savings. The commission would be required to make recommendations to Congress designed to encourage and protect retirement savings.

In recent actions, the IRS has:

- ❑ released a proposed rulemaking notice (EE-62-92) that modifies the final regulations interpreting nondiscrimination requirements for qualified pension plans under Section 401(a)(4).

- ❑ issued Rev. Proc. 93-12, providing sponsors of certain pension plans a simplified method to make amendments in compliance with the Unemployment Compensation Amendments of 1992.

- ❑ issued Announcement 93-9 which proposes audit guidelines for agents to use when examining plans for compliance with qualification standards when a plan has terminated without a determination letter.

- ❑ proposed rules (FI-25-92) on the tax treatment of certain living benefits provided through a life insurance contract. Under the rules, the payment of benefits prior to death would be allowed without income tax liability to the recipient if death is expected to occur within 12 months.

- ❑ announced a March 19 hearing on the proposed regulations that provide the standards needed for insurers to design and market insurance contracts that provide both death benefits and certain living benefits (accelerated death benefits or morbidity benefits) without subjecting policyholders to taxation on the inside buildup of the life insurance contract.

For more information on the legislative or regulatory actions noted above, contact Christine Cassidy at the Academy's Washington office.

HEALTH CARE ACTION IN SIGHT?

The 103d Congress has convened with health care reform high on its agenda. On the session's opening day, House members introduced eighteen bills related to health care.

Several bills from last session have been resurrected. Rep. John Dingell (D-Mich.) introduced a national health insurance program; Reps. Fred Grandy (R-Iowa) and William Goodling (R-Penn.) introduced a bill that would require employers to provide access to, but not pay for, group health coverage; Rep. Peter Hoagland (D.-Neb.) sponsored a bill to simplify health payer forms; Rep. Pete Stark (D-Calif.) introduced a comprehensive health care cost containment bill that would create a national health expenditure budget enforced through cost control programs on the state level; and on behalf of the Republicans, Rep. Robert Michel (R-Ill.) introduced another version of a comprehensive health care cost containment program.

Some in Washington predict that President Clinton will sign a comprehensive package by the end of 1993. Clinton's transition health policy group is not so sure. Bruce Fried, a member of the transition group, has said that passing a health care reform package this year is a very ambitious objective, one that only might be achieved. He expressed confidence that such legislation will be signed before the 1994 congressional elections. Many critical observers believe only an election will spur Congress to take action on the problem.

The transition health policy group presented President Clinton with a paper on various reform options. No official comment has been made on the paper, except that Clinton continues to support the three-pronged reform plan outlined in his campaign. That plan called for reform of the health insurance industry, creation of insurance purchasing pools for small employers, and support for managed care. Clinton continues to favor "managed competition" as the basis of his plan. Items still under consideration include a national health care spending budget and changes in the tax treatment of employers' health expenditures.

As part of the actuarial profession's *Forecast 2000* program, the Academy will hold a Capitol Hill briefing on health care issues in March. At the meeting, members of the profession will discuss the Clinton health care proposals with members of Congress and legislative staff, providing them with the actuarial perspective on the issues.

CALL FOR NOMINATIONS

The Nominating Committee is seeking nominations for the Academy Board of Directors. The nominations will be presented to the membership for election at the Academy's Annual Meeting in October. Please forward nominees' names to Nominating Committee Chairperson Mavis A. Walters, in care of the Academy, using the postcard included in this mailing of *The Actuarial Update*. The deadline for nominations is April 30.

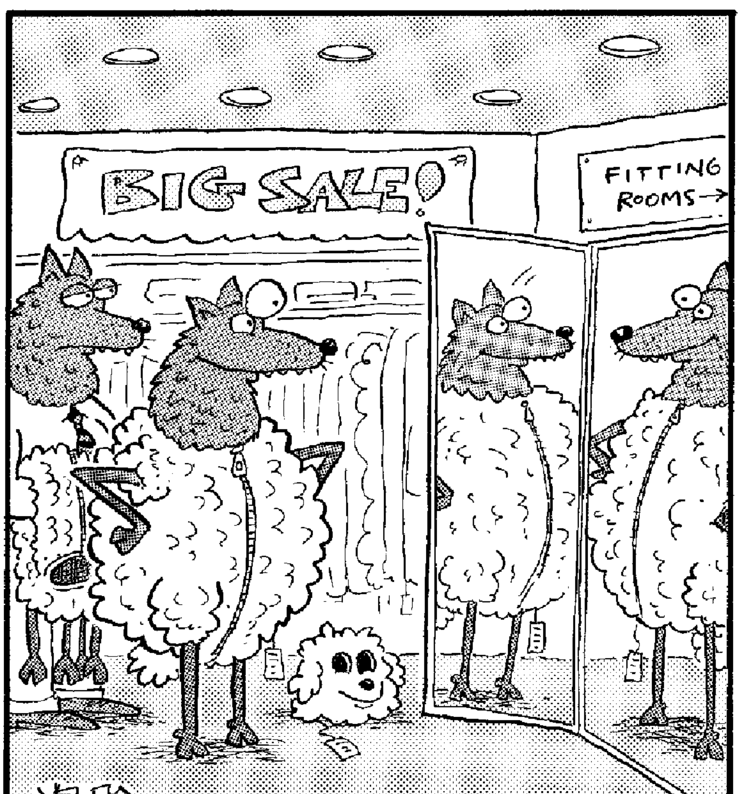
NOTES, *continued from page 3*

sions of the agreement with TWA and also of the actuarial cost estimates that he relied on.

A key factor that may greatly increase the TWA pension plans' liabilities and diminish the assets available to pay PBGC guaranteed benefits is the airline's company-wide Early Retirement Incentive Program. Approved by the PBGC last October, the program allows older employees and those with long periods of service to retire early with subsidized pension benefits, which they apparently may elect to take as lump sum distributions. The incentive program could thus both increase the PBGC's benefit liabilities and permit assets to be siphoned off to pay non-PBGC-guaranteed benefits, which otherwise would be available to pay guaranteed benefits. The PBGC's potential losses will depend on the amount of the subsidy, the age, pay level, and number of employees taking advantage of the program, and the actuarial lump sum conversion factors. It is puzzling that the PBGC sanctioned this program, for it may create substantial additional costs if a high percentage of eligible employees apply for it. This is nearly certain to occur if those employees conclude that TWA's prospects for survival are slim. Lockhart should make available to the public the estimates of PBGC actuaries of the range of the incentive program's cost.

There are other cost factors worthy of note, including the recent change to a freeze rather than termination of the plans (opening the door for the Incentive Program); the defined benefit increase negotiated in January 1992, and the addition at the same time of a defined contribution plan, which will divert contributions that might more properly fund the pension plans and thereby reduce the PBGC's liability in the event the plans terminate; and the value of the collateral underlying future contributions to be made by TWA and Icahn-owned companies. If TWA goes under and such value fails to be realized, the PBGC will have even greater burdens to shoulder.

Langer is president of the David Langer Company in New York City.



And Speaking for the ABCD . . .

In January, the Actuarial Board for Counseling and Discipline (ABCD) completed its first year of operation. During this time, it has set rules of procedure and begun the task with which it was charged: to investigate complaints against actuaries and to counsel them on maintaining high professional standards. The major actuarial organizations and the overwhelming majority of individual actuaries have accepted the ABCD, with gratifying alacrity, as a necessary and integral part of our rapidly evolving profession.

Complementary to its chief mission, the ABCD has set for itself the goal of serving as an educational resource for the actuarial profession. The Board encourages a greater awareness of the importance of professionalism, and of its application to everyday actuarial practice. Actuaries who are well informed about standards of professionalism may be far less likely to need the counseling of the ABCD. In most instances, it is preferable to prevent violations than to correct them.

With this goal of educational outreach in mind, the ABCD has established a speakers bureau. Speakers from the Board are available to address professional meetings, seminars, actuarial student clubs—all variety of actuarial organizations. Naturally, ABCD speakers will discuss the Board's objectives, the mechanics of its counseling and discipline functions, and the importance of professional standards.

The dialogue on actuarial professionalism is now well established. The ABCD, through its speakers, seeks to ensure that the discussion includes all actuaries.

To request a speaker from the ABCD, or to obtain more information about its work, write:

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