

From the President: Academy Board Report

BY BOB BEUERLEIN

President, American Academy of Actuaries

THE FINAL MEETING of the Academy Board of Directors each year in October is always a valediction. While the terms of Academy Board members run from annual meeting to annual meeting, it is the last time the year's class of Board members gathers to conduct Academy business. There will be a wonderful celebration and transition from me to Steve Alpert as Academy president at our [Annual Meeting and Public Policy Forum](#), Nov 14–15 in Washington, D.C. But the October Board meeting is often both poignant and very productive, as Board members have been a team for at least a year, and often issues that have been visited and revisited in analyses and discussions come to a clear decision point in the fall meeting.

This year in particular, the meeting was a stellar example of what an



excellent Board, fully devoted to and understanding their obligation to make strategic decisions in the best interests of the Academy's mission—to serve the public and the U.S. actuarial profession—can accomplish. This is due to two factors. The first is

the work and dedication of each and every member of this year's Board. I would like to personally give my thanks, once again, to the members of the [2017 Board](#). The second factor is the work that has been done over the last few years to streamline the Board, reorganizing it to be more focused and effective in furthering the mission of the Academy.

I would like to share with you just a few of the highlights of the meeting.

Para-Actuary

For several years, the Academy has been examining whether there was a mission justified role for the Academy in professionalizing those who provide support to actuaries throughout our profession—those we have called “para-actuaries.” Earlier this year, [I wrote to the membership](#) about our efforts in this area,

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Annual Meeting and Public Policy Forum Is Just Two Weeks Away

THE ACADEMY'S 2017 [Annual Meeting and Public Policy Forum](#), to be held Nov. 14–15 at the Fairmont Hotel in Washington, D.C., is just two weeks away. With high-profile plenary-session speakers, including the *Washington Post*'s Bob Woodward, and many practice-specific breakout sessions, the agenda offers both a high-level and a detailed look at the policy and professionalism landscape one year after last November's historic election. An [online agenda](#) is now available.

In addition to Woodward—who will bring his tough-minded reporting perspective and extensive historical



knowledge of the presidency to the key question of what the nontraditional Trump presidency means for the country—[keynote and plenary speakers](#) include S. Roy Woodall Jr., independent member of the Financial Stability Oversight Council (FSOC), who will discuss his role in the FSOC

and share his perspectives on interactions with the insurance industry and insurance regulators; and political commentators Mark Shields and Alex Castellanos, who will roll back the curtains for a candid analysis and discussion with the audience of what's really going on in Washington, and why they should care.

A “[Professionalism Under Pressure](#)” plenary session will feature five experts looking at the No. 1 ethical issue in actuarial practice: pressure by principals regarding assumptions, according to a professionalism survey conducted by the Academy. Such pressures can

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NOVEMBER

10 *End-Of-Life Care in an Aging World: A Global Perspective*, Webinar

12-16 *Life and Health Qualifications Seminar*, Arlington, Va.

14-15 *Annual Meeting and Public Policy Forum*, Washington, D.C.

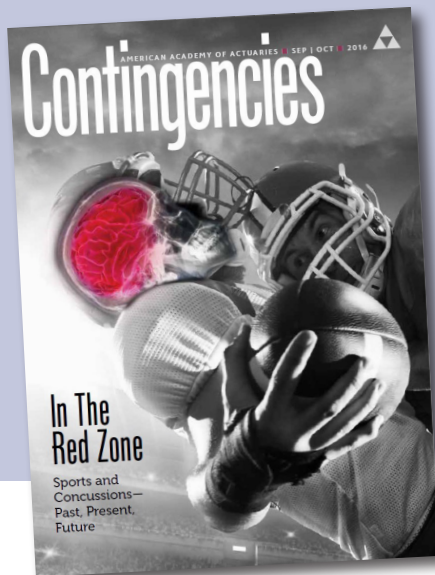
DECEMBER

7-8 *Effective P/C Loss Reserve Opinions Seminar*, Chicago

Academy NEWS Briefs

Contingencies Story Wins Honorable Mention

THE *CONTINGENCIES* September/October 2016 cover story, "[In the Red Zone: Sports Concussions—Past, Present, and Future](#)," received honorable mention in the "Single Article—Professionalism/Membership Association" category at the *Folio* magazine awards ceremony in New York City on Oct. 11. The feature story was written by Michael G. Malloy, the Academy's managing editor for member content. ▲



For a list of all previous and upcoming Academy events, please visit the Academy's online [Events Calendar](#).

To continue receiving the *Update* and other Academy publications on time, make sure the Academy has your correct contact information. Academy members can update their member profile at the [member login](#) page on the Academy [website](#).



Recently Released

THE LATEST [Enrolled Actuaries Report](#) covers the recent webinar and [report on retirement readiness](#) in the United States, United Kingdom, and Australia and the Pension Practice Council's Capitol Hill briefing on multiemployer-plan issues, and offers an in-depth preview of pension breakout sessions at the Academy's Annual Meeting and Public Policy Forum in November. The October [HealthCheck](#) covers the Health Practice Council's letter to U.S. Senate leadership on last month's proposed health care legislation; Senior Health Fellow Cori Uccello's quotes in several news stories regarding attempts to reform the Affordable Care Act; and state legislative and regulatory updates. ▲

Reserve Your Copy—2017 P/C Loss Reserve Law Manual

THE LATEST EDITION of the *Property/Casualty Loss Reserve Law Manual* is [available for order](#). With delivery by early January, the manual is designed to help appointed actuaries comply with NAIC Annual Statement requirements for Statements of Actuarial Opinion (SAOs).

The new edition has improved navigation and contains essential information for actuar-

ies, including: SAO requirements and the laws and regulations establishing those requirements for every U.S. state, Washington, D.C., and Puerto Rico; annual statement instructions for the SAO for property/casualty, title loss, and loss expense reserves; and other pertinent annual statement instructions.

The manual is available both online and on CD-ROM. [Reserve your copy today.](#) ▲

Academy NEWS

Committee Makes ASB, ABCD Appointments

THE SELECTION COMMITTEE has made appointments to the Actuarial Standards Board (ASB) and Actuarial Board of Counseling and Discipline (ABCD) of members and chairpersons that take effect on Jan 1, 2018. Established in the Academy bylaws to include the presidents and presidents-elect of the five U.S. based organizations, the Selection Committee is chaired by Academy President Bob Beuerlein.

Three ABCD members were appointed to their second three-year terms—John Stokesbury (pension), Allan Ryan (life), and David Ogden (health). Ogden and Deborah Rosenberg were appointed vice chairpersons, and Richard Block was reappointed as ABCD chairperson; the chairperson appointments are one-year terms.

At the ASB, Beth Fitzgerald (casualty), who has been a vice chairperson, was appointed the board's chairperson. Two vice chairpersons also were appointed: Kathy Riley (pension) and Maryellen Coggins (enterprise risk management). ASB member Barbara Snyder was appointed to a second three-year year term, and Mita Drazilov (pension) and Robert Damler (health) were appointed to their first three-year terms.

Beuerlein thanked outgoing ASB Vice Chairperson for Operations Frank Todisco (pension) and ASB member Ross Winkelman



(health) for their contributions as members of the ASB. Both have been ASB members since 2015, and Todisco has served as a vice chairperson for the past two years.

"The Academy congratulates all the new appointees and looks forward to their tenure," Beuerlein said. "Frank and Ross did excellent work in their time at the ASB—Frank's work on the ASB's Pension Task Force, and Ross's work in helping to draft ASOP [Actuarial Standard of Practice] No. 49 were both valuable contributions to the ASB in the past few years." ▲

Academy Leaders Give Presentations at IAA Meeting

MANY MEMBERS of the Academy's leadership and active volunteers participated in the biannual meeting of the International Actuarial Association (IAA), held in Chicago Oct. 4–8. As it does at each IAA meeting, the Academy hosted a breakfast meeting for all representatives to IAA committees from each of the U.S.-based actuarial organizations to discuss issues of importance to U.S. actuaries, including education, Big Data, and changing international accounting and capital standards.

Working to bring the U.S. perspective to actuarial associations around the world, Academy President Bob Beuerlein helped lead a roundtable discussion among the IAA members interested in public policy.

Janet Barr, a member of the Academy's Social Security Committee, presented to IAA's Social Security Committee; Al Beer, former chairperson of the Actuarial Standards Board and the Academy's representative to the IAA Education Committee, gave a presentation to that group about how qualification to practice is viewed and specified through the U.S. Quali-



Beuerlein with Stephen Yeboah, president of the Actuarial Society of Ghana, at the IAA meeting

cation Standards; and former Academy President Cecil Bykerk gave a presentation to the IAA Professionalism Committee on the counseling and discipline process.

Beuerlein in IAA Webinar

Beuerlein also was a featured speaker in an Oct. 24 webinar hosted by the IAA's

Public Policy Task Force and the International Association of Consulting Actuaries. Other presenters were David Fairs, from the U.K.'s Association on Consulting Actuaries, and Niel Fourie and Tim Vieyra from the Actuarial Society of South Africa. Beuerlein serves as chairperson of the IAA's Public Policy Task Force.

The webinar was very well-attended, highlighting increasing interest throughout the world's actuarial associations on public policy issues and how the actuarial profession in various countries plays a role in formulating public policy. Beuerlein articulated the Academy's objective, nonpartisan approach, and found agreement among the panelists that becoming a trusted adviser to policymakers requires time, effort, and extensive volunteer and staff expertise.

He described the rigorous and active management that is essential to the Academy's engagement in public policy work and the credibility and reputation it has achieved through its robust conflict of interest policy, peer review, and decision-making processes when making public policy statements. ▲

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come from many sources, an ethical concern that crosses all practice areas.

At an international plenary session, “[International Insurance Update—Progress in the Development of the ICS by the IAIS](#),” to be moderated by Solvency Committee Chairperson Elizabeth Brill, panelists will discuss the latest developments taking place at the International Association of Insurance Supervisors (IAIS) as they continue to craft a risk-based global Insurance Capital Standard (ICS).

And a panel of health journalists will kick off a Wednesday morning plenary session with the latest news, analysis and insight into what’s happening with congressional and Trump administration moves to reform and/or repeal the Affordable Care Act (ACA). They will discuss how they sift through and interpret the information, and provide perspectives on how health care policy is reported. Julie Rovner, chief Washington correspondent for *Kaiser Health News*, will moderate the panel, which will include *The Wall Street Journal* health reporter Stephanie Armour and Joanne Kenen, executive editor, health, for *Politico*.

[Practice-area breakout sessions](#) will cover key issues in casualty, health, life, and pension, including the health insurance individual mandate and ongoing efforts to repeal or reform the ACA; the latest in flood and auto insurance; public and multiemployer pension plans; and nonguaranteed elements and emerging mortality trends.

Attendees can receive up to 9.4 organized-activity continuing education (CE) credits and up to 1.8 professionalism CE credits. The Academy believes in good faith that Enrolled Actuaries attending the three pension breakouts also can earn up to 5.4 “non-core” CPD credits under Joint Board for the Enrollment of Actuaries (JBEA) rules.

The Nov. 14 dinner will feature lively entertainment, with performances by the critically acclaimed Shakespeare Theatre Company. Throughout dinner and closing with an after-dinner finale, the renowned troupe of company actors will entertain attendees and engage with comedic and dramatic monologues and scenes drawn from the vast treasury of Shakespeare’s work.

And, in keeping with tradition, the Academy will present its annual service awards: The [Jarvis Farley Service Award](#), to Ken

Kent; the [Robert J. Myers Public Service Award](#), to Larry Bruning; and [Outstanding Volunteerism Awards](#) to Mary Bahna-Nolan, Keith Passwater, Lenny Reback, Nancy Watkins, and Aaron Weindling.

There’s still time to join us. [Register today](#). ▲

Bring Your Old Phones to the Annual Meeting for the Academy’s ‘Upcycling’ Program

Bring your retired cellphones to the Annual Meeting and Public Policy Forum Nov. 14–15 for the Academy’s new “upcycling” program, to collect recent vintage smartphones for reuse. [Read more here](#) about how first to remove any password protection and disconnect from any cloud account. Upcycling your phone will support the work of The Actuarial Foundation, help the environment, and give you a charitable tax deduction. All data on your device will be erased before it is upcycled. Read Academy President Bob Beuerlein’s [message to members](#). ▲



From left, Jason Leppin, executive director of The Actuarial Foundation; Academy President Bob Beuerlein; and John Ehrhardt, chair of the Board of Trustees for The Actuarial Foundation, place their phones in the upcycling container at the Academy’s booth at the Society of Actuaries’ October meeting in Boston.

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2017

NOVEMBER 14-15 ★ FAIRMONT HOTEL

WASHINGTON, DC

and we told you we would report back to you this month. The Academy surveyed various segments of the membership to determine whether there would be value to employers in professionalizing actuarial support positions. Through a highly regarded firm, Censeo Consulting Group, that was well-aligned with the purpose of our exploration of this issue—i.e., to make a meaningful difference for the actuarial profession—we undertook extensive analyses to make sure we understood what kind of program would be valued by employers, actuarial support personnel, and our members, and whether the Academy’s execution of such a program would create positive change and value for the profession.

At its October meeting, the Board was able to review a comprehensive analysis that had taken us through several years of work. While the first phase of our evaluation yielded data that showed there was interest in some modest program, the second phase that included the surveys noted above was focused on gaining further understanding of the benefits and risks of launching a “para-actuary” program to provide the Board the information needed to make a go / no-go decision this month. This second phase had three objectives: determine program characteristics; refine participation estimates; and complete a risk assessment.

Identifying program characteristics required getting employer perspectives, because employers would most likely be expected to pay for the program, and they only support programs that are valuable to their organizations. Based on market research using conjoint analysis to determine what attributes were most important to employers, we found that employers preferred an inclusive, lower-intensity program that included some technically focused (e.g., role specific to daily job responsibilities) continuing education of fairly low cost of about \$100. Recognition by the profession of a specific para-actuary credential, and the creation of an academic program, were not valued program characteristics.

Participation estimates were driven by the extent to which employers would value the program, actuaries would recommend it, and the likelihood of para-actuary participation with high employer support. We found a moderate level of employer support for a low-intensity program. We also found a low level of support from actuaries for a potential program.

The risk assessment considered a range of Academy-centered risks, primarily focusing on whether the preferred program characteristics met our objective to make a positive difference for the public, employers, actuaries, para-actuaries, and the profession that warranted our undertaking creation and implementation of the program.

The Board ultimately decided it would not go forward with the para-actuary program. It was clear to the Board that this program was not one to view through the theory of “if you build it, they will come,” but rather a decision about whether the preferred program was one that was aligned with our mission and would contribute significantly to a need that the profession has. And so it decided—I believe, wisely—not to pursue creation of a para-actuary program.

Lifetime Income Statement

Academy membership was [asked for input in April](#) on a proposed advocacy statement on lifetime income. The amount of work that Academy volunteers on the Pension and Life practice councils and the Lifetime Income Risk Task Force have done in addressing

lifetime income options and issues in the past several years has been [wide-ranging and significant](#). The proposed advocacy statement was one that those who have worked in this area perceived to be an umbrella or capstone for summarizing much of the work in that area. After extensive discussion and review over several meetings, the Board decided that, as a Board, it would adopt a [position statement](#) that clearly indicates Academy support for policies and educational initiatives that increase the availability of retirement income options within employer-sponsored defined contribution (DC) plans.

Such options, based upon actuarial principles such as longevity pooling and other risk mitigation strategies, can help retirees manage their financial security over their remaining lifetime. Rather than denote this statement as one of advocacy for a specific outcome, the Board decided that the Academy issue it as a position statement in support of options of various kinds that address American retirees’ needs would be the most appropriate vehicle.

Although there is no single solution to the challenge of Americans’ retirement financial security, participants in DC plans could benefit from lifetime income or longevity management options with respect to at least a portion of the account balance, the position statement notes. These options could be permitted or encouraged through guidance from the Department of Labor and provided by employers, insurance companies, fund managers, and others.

While retirees can obtain the income options described above by rolling DC accumulations into individual retirement accounts, the statement notes there are significant benefits to making the options available inside employer-sponsored DC plans. Some of these benefits include:

- ▲ **Pricing efficiency.** Employers that maintain DC plans have access to institutionally priced financial products and services. The lower costs provide greater net benefits.
- ▲ **Ease of transaction.** A retirement income option can be elected without the need to perform an IRA rollover or seek out potential providers.
- ▲ **Provider and product due diligence.** Plan fiduciaries are capable of providing thorough due diligence beyond that which an individual is capable of performing, which can help minimize poor choices in provider and product selection, and strategy implementation.
- ▲ **Guidance on retirement income planning and longevity risk management options.** Employer- or plan-provided educational materials and tools could aid in filling any gaps.

Joint Discipline Council

The Academy’s unwavering support of a disciplinary system that is fair, efficient, and of true service to the public and the profession led the Board to review the Academy’s participation in a little-known but highly complicated process for considering a very small select set of “Findings and Recommendations” for discipline of our members that we receive from the Actuarial Board for Counseling and Discipline (ABCD), and is utilized only in those matters where the ABCD referral concerns an actuary who is a member of more than one U.S.-based actuarial organization.

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A separate legal entity, the “Joint Discipline Council” (JDC), was established as a nonprofit corporation in the District of Columbia about five years ago. It has no members but does have a board of directors of the 10 presidents and presidents-elect of the five U.S.-based actuarial organizations. Its purpose was to eliminate multiple hearings for members belonging to more than one of the organizations, thereby streamlining the process for subject actuaries. Since its establishment, only five matters have been referred to the JDC by the individual organizations.

The JDC’s only responsibility is to appoint hearing panels in those few matters where more than one actuarial organization is involved—and then only when the subject actuary elects a joint first hearing—after which only the JDC members who are officers of those organizations participate in appointing that panel. The Academy, given its long experience in housing and providing the standard-setting and discipline bodies for the U.S. profession, has been the service provider for the JDC, getting annual audits, providing legal support, filing any or all annual corporate filings, obtaining insurance for the separate entity, and providing administrative support. Supporting the JDC’s existence as a separate legal entity has, over time, required much more significant financial and staff support than was envisioned. This led the Academy Board to examine whether there were truly any efficiencies for our members and value for the public in maintaining this process.

The Board reviewed the historical background and activities leading up to the establishment of the JDC, focusing particularly

on the significantly increasing amount of Academy leadership, staff, and financial support needed for what had intended to be, in the Academy Board’s view, a simple, straightforward mechanism to offer the choice of an initial joint hearing with another organization(s). Having no members and no authority over the five actuarial organizations, the JDC has no authority to impose discipline, and its process outcome could again only result in a decision that the individual membership organizations would again consider pursuant to their own procedures. It became clear that there is no efficiency in adding the possibility of two more hearings before a subject actuary’s membership organizations could consider and decide on whether to impose discipline.

During the past several years, the relationships among the actuarial organizations have become more clearly differentiated by mission and strategic directions. The Academy Board decided that the JDC does not add efficiency or value to our consideration of discipline referrals, and therefore it is not a good use of Academy resources, financial and administrative, for us to participate in it. At our October meeting, the Board agreed the Academy should withdraw from the JDC and from providing services to it. The Academy remains open to and welcomes other less formal ways—such as memoranda of understanding—with the other actuarial organizations if efficiencies are attainable for individuals about whom discipline referrals have been received without sacrificing the public’s and the profession’s needs for attentive and efficient resolution of recommendations for discipline. ▲

PROFESSIONALISM NEWS

Professionalism Webinar: The Great Assumptions Debate

THE ACADEMY hosted a professionalism webinar on Oct. 26 that was attended by more than 2,800 people. “[The Great Assumptions Debate](#)” looked at issues following the Actuarial Standards Board’s (ASB) approval late last year of an exposure draft of a proposed actuarial standard of practice (ASOP), [Setting Assumptions](#).

Assumptions lie at the heart of nearly every actuarial assignment, but ASOPs provide only limited guidance for setting assumptions. The ASB received 45 comment letters on the exposure draft—significantly more than for most drafts—from actuaries in every area of practice.

Webinar presenters ASB member Barbara Snyder, ASB Assumptions Task Force Chairperson Maria Sarli, and ASB General Committee member Ralph Blanchard examined key issues raised in the comment letters. Director of Professionalism and Academy General Counsel Paul Koll-



Sarli (left) and Snyder prepare for the webinar

mer-Dorsey moderated; [slides and audio](#) are available for members free of charge.

Snyder led with a general discussion of the standard-setting process. The presenters then turned to questions raised in the comments on the exposure draft, including whether a cross-practice standard on assumptions was needed. The ASB opted

for a cross-practice standard to make sure guidance for setting assumptions was available for all practice areas and all situations.

Nevertheless, “the task force decided whatever we did had to be very high level, very principles-based, and requiring professional judgment,” Sarli explained.

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“Because if you start getting very specific, prescriptive language and a lot of examples in a cross-practice ASOP, what you write will not be understood the same way by different people across different practice areas. The draft is intended to supplement any specific guidance that exists.”

The presenters discussed the obligations of an actuary who relies on or uses assumptions set by others, including whether the actuary must assess the reasonableness of each such assumption and what the actuary should do if the assumptions are not reasonable. Blanchard reminded actuaries in such situations to consider whether the other actuary’s assumptions are really unreasonable, or simply not what they would have selected.

“If you think what they did was not reasonable, I don’t see how you could professionally keep quiet, going back to the

Code of Professional Conduct. All actuaries should know the Code really well,” he said. “Time after time, wherever you come up with these questions, the Code provides clarity.”

Sarli noted that while ASOP No. 41, [Actuarial Communications](#), contains guidance on disclosing assumptions, Precept 8 of the Code requires the actuary to “take reasonable steps to ensure that such services are not used to mislead other parties.” Even if you disclose an assumption that may not be reasonable, you may “have to go a little bit further than disclosure,” she said. “You have to think about how your work product is going to be used. Who’s going to see it? Who’s going to rely on it? Are the people who are going to rely on it going to read the disclaimers that you presented? You need to think about it a little more broadly.”

The presenters also discussed whether the actuary should assess the reasonableness of assumptions in the aggregate, and whether margins for adverse deviation should be disclosed, and whether sensitivity analysis should be required.

Snyder concluded by noting the task force is considering and responding to all substantive comments received. Once the task force is completes that review, the draft will go to the ASB General Committee for consideration, and then to the full ASB, she said. It is highly likely, Snyder opined, that the ASB will release a second exposure draft for comment, and she encouraged everyone to read the next exposure draft and offer comment on it, emphasizing that participation from actuaries in the standard-setting process is vital to the profession. ▲

IN THE NEWS

Major media outlets including the [Wall Street Journal](#), [Washington Post](#), [Politico](#), [The Hill](#), [Fox News](#), [Kaiser Health News](#), and [MSN](#) quoted Senior Health Fellow Cori Uccello on the potential risks and consequences for consumers and insurance markets under President Trump’s executive order on association health plans (AHPs). The Academy’s February [issue brief](#) on AHPs was also cited by a number of outlets, including the [Los Angeles Times](#), [Chicago Tribune](#), the [Baltimore Sun](#), [National Law Review](#), [Lexology](#), and a [Health Affairs](#) blog. The issue brief was also cited in a video and article published by the [American Journal of Managed Care](#) (at the 1:30 mark).

Uccello’s comments from an Academy [news release](#) on the potential risks and effects of the Trump administration’s health care executive orders were cited in an editorial by the [Post and Courier](#) in Charleston, S.C., and by [Fierce Healthcare](#), [S&P Global Market Intelligence](#), [Healthcare Finance News](#), [Talk Business and Politics](#), [Nashville Medical News](#), and [Healthcare Dive](#).

Andy Slavitt, former acting administrator of the Centers for Medicare & Medicaid Services—and a keynote speaker at the



Academy’s 2016 Annual Meeting and Public Policy Forum—cited the Academy’s news release in a [USA Today](#) opinion piece, which was reprinted by more than 40 media outlets.

Uccello’s comments from a separate Academy [news release](#) regarding potential congressional action on cost-sharing reduction reimbursements after the Trump administration decided to end the payments were cited in a [Fierce Healthcare](#) story.

The [Center on Budget and Policy Priorities](#) cited the Academy’s [analysis of risk pooling](#) in the individual health insurance market.

A [HealthPayer Intelligence](#) story cited the Academy’s [issue brief](#), *Using High-Risk Pools to Cover High-Risk Enrollees*.

Several U.S. and Australian media outlets covered the Academy’s jointly published international [survey on retirement readiness](#)—including [Pensions & Investments](#) (subscription required), [SMSF Adviser](#), [Super Review](#), [Money Management](#), [BPM Magazine](#), [Your Life Choices](#), [Asia Insurance Review](#), [Middle East Insurance Review](#), [Sydney Morning](#)

[Herald](#), [Gippsland Times](#), [Rouse Hill Courier](#), [Gannawarra Times](#), and [Penrith City Gazette](#).

[Pensions & Investments](#) reported on the Academy’s announcement that the 2017 recipients of its two highest awards, the Jarvis Farley Service Award and the Robert J. Myers Public Service Award, will be [Ken Kent](#) and [Larry Bruning](#), respectively.

An editorial in the [Sarasota Herald-Tribune](#) (Fla.) reported on the Academy’s jointly sponsored [Actuaries Climate Index](#), which provides a quarterly gauge of changes in extreme weather events and sea levels in the United States and Canada. The article was reprinted by [Northwest Florida Daily News](#), [News-JournalOnline.com](#) (Fla.), and [Ocala Star Banner](#) (Fla.).

The [Teachers Insurance and Annuity Association](#) used the widely praised [Actuaries Longevity Illustrator](#), developed jointly by the Academy and the Society of Actuaries, for statistics in an infographic on how policymakers can restore the role of lifetime income in workplace retirement plans.

The September/October [Contingencies](#) [cover story](#), “An Imperfect Storm,” was cited in an [Advocate](#) (Baton Rouge, La.) editorial. ▲

Reliance and the ASOPs: In Good Faith and Subject to Disclosure

By Maryellen Coggins, Chairperson, Actuarial Standards Board

THE LATE GREAT JACKIE ROBINSON once said that, unlike baseball, “Life is not a spectator sport.” Neither is actuarial practice, I would argue. The actuarial standards of practice (ASOPs) illustrate this aphorism in that, above all, they require actuaries to take *action*, by stating what the actuary should do, consider, document, and disclose in the course of performing actuarial services.¹

Even when an actuary relies on a third party to provide input to, or a component of, the actuarial services, action is required. ASOP No. 1, [Introductory Actuarial Standard of Practice](#), construes the term “reliance” as follows:

“Actuaries frequently rely upon others for information and professional judgments that are pertinent to an assignment. Similarly, actuaries often rely upon others to perform some component of an actuarial analysis. Accordingly, some ASOPs permit the actuary to rely in good faith upon such individuals, subject to appropriate disclosure of such reliance, if required by applicable ASOPs (for example, ASOP Nos. 23, [Data Quality](#), and 41 [[Actuarial Communications](#)]).”

The actuary’s reliance upon others for data and other information is not intended to be passive. The ASOPs generally refer the actuary to the guidance set out in ASOP Nos. 23 and 41. These cross-practice standards anticipate, in effect, that the actuary will assess the reasonableness and suitability of the data or other information received from others and formulate appropriate disclosures. In an important sense, the actuary’s assessment of data and information received from a third party effectively forms the basis for the actuary’s exercise of reliance “in good faith.”

ASOP No. 23 says that the actuary “may rely on data supplied by others,”² but that such reliance is subject to the ASOP’s guidance on the review and use of data. For example, the actuary should review the data (or disclose that the actuary has not performed a review and why, as well as “any resulting limitations on the use of the actuarial work product”).³ During the review,



The actuary’s reliance upon others for data and other information is not intended to be passive.

the actuary should make a “reasonable effort to identify data values that are questionable or relationships that are significantly inconsistent.” If the actuary believes that questionable data could affect the analysis, the actuary should consider improving the quality of the data and disclose “any unresolved data values that the actuary believes could have a significant effect on the analysis,” as well as any steps the actuary has taken to improve the data.⁴ The actuary also “should make a professional judgment” about whether the data are of acceptable quality to perform the analysis, can be enhanced, can be used with disclosure of uncertainty or bias, or cannot be used.⁵ Similarly, ASOP No. 23 requires actuaries to assess whether other “information relevant to the use of data,” such as contract provisions and plan documents received from third parties, is suitable for use.⁶

If review and assessment form the first half of this participatory endeavor, disclosure forms the second half. ASOP No. 23 requires actuaries to disclose “the extent of the actuary’s reliance on data and other information relevant to the use of the data supplied by others,” along with their assessments of it.⁷ ASOP No. 41 further establishes that an actuarial communication relying on other sources for data and other information “should define the extent of reliance . . . by stating whether or not checks as to reasonableness have been applied.”⁸ If the actuary fails to do so, the actuary assumes responsibility for the actuarial communication.⁹

You might feel a little breathless after reading this partial list of actions that an actuary should take before relying on data and other information from third parties. As we have shown, the ASOPs do not give the actuary a free pass when it comes to reliance, but expect the actuary to step up and assess the data and information, its limitations, and its reasonableness and suitability for use in the task at hand, to improve it where appropriate, and to disclose any limitations that may affect the analysis. Indeed, this is a full-contact and participatory endeavor, not a spectator sport. ▲

Footnotes

1. ASOP No. 1, Section 3.1.
2. ASOP No. 23, Section 3.5.
3. ASOP No. 23, Section 3.3.

4. ASOP No. 23, Section 3.3(b).
5. ASOP No. 23, Section 3.4.
6. ASOP No. 23, Section 3.6.

7. ASOP No. 23, Section 4.1(h).
8. ASOP No. 41, Section 3.4.3.
9. ASOP No. 41, Section 3.4.3.

ASB Adopts ASOPs on Pension Risk and PBR for Life Products

THE ASB RECENTLY adopted ASOP No. 51, [*Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*](#), and ASOP No. 52, [*Principle-Based Reserves for Life Products under the NAIC Valuation Manual*](#). ASOP No. 51 will be effective for any actuarial work product with a measurement date on or after Nov. 1, 2018, and ASOP No. 52 will be effective for valuation dates on or after Dec. 31, 2017. ▲

Professionalism Outreach

WILLIAM HINES, a member of the Council on Professionalism, gave a wide-ranging presentation titled “A Look at Professionalism and Ethics” at the Prudential Network Annual Seminar Tuesday in Newark, N.J. More than 150 people attended the seminar, which examined the professionalism considerations involved in, and resources available to actuaries, addressing ethical dilemmas.

Academy Board member Lisa Slotznick gave a well-received presentation

Oct. 25 on “ASOP No. 21 and Other Professionalism Topics” at the Atlanta Actuarial Club. In addition to reviewing the changes to the cross-practice ASOP on Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations, which was revised in September 2016, Slotznick described the ASOP development process and discussed the relationship between the Code of Professional Conduct and the ASOPs. ▲

Annual Meeting to Feature ‘Professionalism Under Pressure’ Plenary Session

The No. 1 ethical issue in actuarial practice is pressure by principals regarding assumptions. A “Professionalism Under Pressure” Nov. 14 plenary session at the Academy’s Annual Meeting and Public Policy Forum will look at the Code of Professional Conduct, how public interest considerations should inform actuarial work generally, and how actuaries can articulate actuarial perspectives in public policy and societal issues.



Register today—www.actuary.org

HEALTH NEWS



Academy Cites Potential Risks to Insurance Markets After Executive Orders

THE ACADEMY CAUTIONED that President Trump’s [*executive order*](#) on association health plans (AHPs) and short-term limited-duration insurance, released in mid-October, could present [*significant risks and consequences*](#) for consumers and health insurance markets under the Affordable Care Act (ACA).

Separately, the Trump administration announced that [*cost-sharing reduction*](#) (CSR) payments will discontinue immediately after receiving a legal opinion from the attorney general. Federal funding for CSRs has been disputed under *House v. Price*, which challenges a lower court’s 2016 ruling that determined the ACA’s reimbursements to insurers for CSRs were not validly appropriated by Congress.

The Academy’s Health Practice Council also [*wrote to Congress*](#) about stabilizing the individual health insurance market in light of CSRs ending, and has [*previously outlined*](#) why CSR reimbursements should be funded on a permanent basis.

“Higher premiums are necessary when CSR reimbursements to insurers are not made,” said Academy Senior Health Fellow Cori Uccello. “In states where rates for 2018 were filed assuming federal CSR payments would be made, premiums may be insufficient to cover the cost of care, which could lead insurers to reconsider their decisions to participate in the market. Permanently funding the CSR reimbursements through congressional action is needed to avoid further premium increases and insurer market withdrawals that could lead to a loss of coverage.” ▲



Actuaries Climate Index Value Reaches New High With Winter 2016–17 Data

QUARTERLY DATA for the [Actuaries Climate Index](#) (ACI), released Oct. 5, show extreme weather events continue to increase across Canada and the United States, with the index value reaching a new high in winter 2016–17. The new ACI data showed a record high followed the previous record value measured in fall 2016, reflecting increasing incidence and severity of weather extremes and sea levels from historically expected patterns for the two countries.

“The severity of this year’s hurricanes and wildfires has highlighted the question of whether extreme weather is

increasing, and the ACI data continues to trend upward for most North American regions,” said Stuart Mathewson, Academy Board member and member of the ACI’s Climate Change Committee.

“The record value for the index (which is a five-year moving average) was driven by the values for the last six seasons,” he said. “These seasons all have had index values over 1.50, compared to the years before 1998, when there was no season over 1.00. We have seen more extreme weather events than one would expect based on the benchmark climate data.”



ACTUARIES CLIMATE INDEX
INDICE ACTUARIEL CLIMATIQUE

Along with the Academy, the ACI is sponsored by the Canadian Institute of Actuaries, the Casualty Actuarial Society, and the Society of Actuaries. ▲

COPLFR Comments on Impact of Valuation Manual Changes

THE COMMITTEE ON PROPERTY and Liability Financial Reporting (COPLFR) sent a [comment letter](#) to the NAIC’s Actuarial Opinion Working Group on the possible effects of recent life insurance Valuation Manual changes on Statements of Actuarial Opinion (SAOs) of P/C insurers whose reports include accident and health or long-term care lines of business.

The letter noted several questions and comments related to COPLFR’s interpretation of the updated requirement as well as on how to incorporate the updated requirement within existing SAOs, including loss reserve components of SAOs; active life reserves; asset adequacy tests; making use of others; the effective date of the requirement and exemptions; and the intended impact of the changes to the SAO relative to the Actuarial Opinion Summary and Schedule P reconciliation.

New Definition of P/C Reinsurance Risk Transfer

Also this month, COPLFR submitted a [comment letter](#) to the NAIC’s Statutory Accounting Working Group, expressing concerns over a proposed new definition of reinsurance risk transfer in Statement of Statutory Accounting Principle (SSAP) No. 62R: *Property and Casualty Reinsurance*. The letter suggests that the proposal needs further study and evaluation.

The letter cites COPLFR concerns with proposed paragraph 28—and challenges that would arise from the proposal—and asks why paragraph 29 was proposed for P/C reinsurance accounting, stating it believes that should be rejected.

“In summary, we believe that the logic underlying the proposed SSAP No. 62R paragraph 29 may be valid for life reinsurance but is invalid for P&C reinsurance and should not be adopted,” the letter states. ▲

Webinar to Look at End-Of-Life Health Care

The Academy and the International Actuarial Association Health Section (IAAHS) will co-host a free webinar, “[End-of-Life Care in an Aging World: A Global Perspective](#).” Using examples from several countries, the webinar will explore the increased health care costs of global aging, quality of life during the end-of-life period, palliative versus curative care, and strategies for addressing the unique health care challenges at the end of life.

Friday, Nov. 10, 2017–11 a.m. to noon EST
Register today—www.actuary.org



NGE Work Group Submits Comment Letter to NAIC

THE NON-GUARANTEED ELEMENTS (NGEs) Work Group submitted a [comment letter](#) to the NAIC's Life Insurance Buyer's Guide (A) Working Group regarding the Life Insurance Buyer's Guide discussion draft.

Noting that the guide "is an important, comprehensive resource for consumer education," the work group said it believes consumers would benefit from the inclusion of a discussion of NGEs in the buyer's guide, offering several points, including:

- ▲ NGEs such as indeterminate premiums, cost of insurance charges, expense charges, policyholder dividends, interest rates, and indexed interest crediting parameters are common features found in many life insurance products;
- ▲ Products with NGEs offer protection at potentially lower costs or higher benefits than products with fixed (i.e., fully guaranteed) costs and benefits.
- ▲ Products with NGEs have the risk that costs could increase or

benefits could decrease, subject to guaranteed limits stated in the policy;

- ▲ Illustrations, if available during the purchasing process, can be useful tools to help consumers understand a range of possible product performance outcomes; and
- ▲ Because NGEs are likely to change, the ongoing performance of products with NGEs should be reviewed periodically after purchase to assess the impact of any NGE changes and consider actions that policyholders may wish to take. ▲

LIFE BRIEFS

- ➔ **Gerald Adamski** and **Laura Hanson** joined the Annuity Reserves Work Group.
- ➔ **Leonard Mangini**, **Mary Simmons**, and **Amanda Young** joined the PBR Assumption Resource Manual Work Group.

Work Group Submits Comment Letter to NAIC on RBC Requirements

THE C1 WORK GROUP [sent comments](#) to the NAIC's Investment Risk-Based Capital (E) Working Group on capital requirements for bonds.

The work group noted it updated its recommendation in June to an August 2015 report, "[Model Construction and Development of RBC Factors for Fixed Income Securities for the NAIC's Life Risk-Based Capital Formula](#)," to include

both updated base factors and the companion portfolio adjustment for the number of bonds in a portfolio.

The letter cited updated recommendations for base factors and the portfolio adjustment for life RBC, noting that the base factors recommended in June 2017 were based on an expanded representative portfolio that included 824 bonds designated as NAIC 1 or NAIC 2 to better reflect the average credit risk of a life

insurer's bond portfolio. The work group also recommended C1 factors for the life RBC formula.

"The C1WG is not recommending these factors for the P&C and health RBC formulas, but has provided these alternative factors as a potential starting point for consideration by regulators to create a more consistent set of updated charges across all RBC formulas," the letter states. ▲

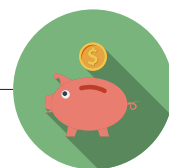
Work Group Comments on Reinsurance Risk Transfer Exposure Draft

THE LIFE REINSURANCE Work Group [sent comments](#) to the NAIC's Statutory Accounting Principles (E) Working Group on exposure draft 2017-28 relating to "Reinsurance Risk Transfer."

The edits proposed to Statutory Statement of Accounting Principles (SSAP) No. 61R and Appendix A-791 in the exposure draft are extensive, introducing new text that could have unintended and substantive impacts, the letter states. The edits introduce revised definitions for proportional and nonproportional reinsur-

ance (SSAP 61R, Glossary), contemplate recharacterizing some proportional treaties as nonproportional (SSAP 61R, new paragraph 18), and introduce a concept of partial reinsurance credit for both proportional and nonproportional contracts (SSAP 61R, new paragraph 41), among other changes.

The work group stated it believes "that additional time, beyond the current exposure, is necessary to allow deeper review of these and the other proposed edits to SSAP No. 61R and A-791." ▲



Actuarial Update

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Webinar, Report Highlights Retirement Issues in the U.S., U.K., and Australia

THE ACADEMY and U.K.-based Institute and Faculty of Actuaries (IFoA) co-hosted a [free webinar](#) on retirement readiness on Oct. 12 that looked at the United States, the United Kingdom, and Australia.

The webinar, attended by more than 400 registered attendees in the U.S. and U.K., focused on a new report authored by the Academy, the IFoA, and the Actuaries Institute of Australia, [Retirement Readiness: A Comparative Analysis of Australia, the United Kingdom, and the United States](#), which shows that people in the three countries struggle with planning for retirement because they often are not equipped to address complex questions related to longevity and asset decumulation.

The presenters—Past Academy President Ken Hohman; Ted Goldman, the Academy's senior pension fellow; IFoA Policy Manager Rebecca Deegan; and Steve Jackson, the Academy's assistant director for research—outlined the report's key findings based on a survey conducted in the three countries. Hohman offered background and context, Goldman gave an overview of the U.S. retirement system, and Deegan highlighted the U.K.'s system and challenges. [Slides and audio](#) are available to members free of charge.

"Any solution can't ignore the status quo, and we need to reflect the existing framework in each country's retirement policies," Hohman said,

adding that recent changes in all three countries have improved retirement preparation. "The bottom line is that progress in retirement readiness is possible ... and we hope this report is going to stir some action among policymakers in our three countries," he said, adding that "perhaps most troubling, developing and following a good plan for the decumulation phase of retirement has proven to be extremely evasive."

The report states that "the transformed retirement environment is evident in respondents' expectations for their retirement, starting with a third of all respondents who do not plan to retire at all." ▲

Note: See the October [Enrolled Actuaries Report](#) for a more detailed summary of the webinar.



PPC Submits Letter to Missouri State Employees' Retirement System Board

THE PENSION PRACTICE COUNCIL sent a [comment letter](#) to the Missouri State Employees' Retirement System Board regarding the newly-adopted Terminated-Vested Member Buyout Program adopted as part of state Senate Bill 62 and described in Board Rules 2-18 and 3-17 of the Missouri State Employees' Retirement System (MOSERS).

The letter cited concerns that MOSERS members may not understand that the methodology used under the buyout program results in lump sums that are substantially lower than would be needed to be purchased to replace the forsaken annuity benefits in the private market.

"In order to help members better understand

the implications of whether to choose a lump sum, MOSERS may want to reconsider how lump sum offers under the buyout program are communicated to ensure that members have the information needed to make a fully informed choice," the PPC wrote. ▲

RISK MANAGEMENT BRIEFS

➡ **Laura Hanson** joined the IFRS 17 Work Group.

PENSION BRIEFS

➡ **David Pazamickas** joined the Multiemployer Plans Subcommittee.